1995 Annual Report

TransAlta
Corporation

Shareholders' Meeting:
Shareholders are invited to attend the Annual Meeting at 10 a.m. on Wednesday, May 8, 1996 at the Westin Hotel, 4th Avenue and 3rd Street S.W., Calgary, Alberta. For shareholder information please call 1-800-387-3598 toll free in Canada or (403) 267-3631 in Calgary or outside Canada.

TransAlta 1995

TransAlta Corporation
("TransAlta" or "the corporation") has two principal subsidiaries: TransAlta Utilities Corporation (TransAlta Utilities) and TransAlta Energy Corporation (TransAlta Energy).

TransAlta Utilities
conducts regulated electric utility operations in Alberta, Canada – serving more than 1.7 million people directly and indirectly in 1995. TransAlta Utilities has a total net generating capability of 4,476 megawatts of electricity and owns more than 100,000 kilometres of operating transmission and distribution power lines.

TransAlta Energy
is in the business of electricity generation, thermal energy supply and electricity distribution outside of Alberta. TransAlta Energy has interests in two electricity distribution companies in New Zealand – serving more than 330,000 people with approximately 4,000 kilometres of distribution power lines. TransAlta Energy owns and operates two cogeneration plants in Ontario and has an interest in a large hydroelectric facility in Argentina. In addition, TransAlta Energy has interests in thermal generation projects currently under development in Ontario, New Zealand and Australia.

TRANSALTA CORPORATION
- TRANSALTA UTILITIES (100%)*
  - TransAlta Fly Ash Corporation (100%)
  - Kanelk Transmission Company Limited (100%)
  - Farm Electric Services Ltd. (100%)
- TRANSALTA ENERGY (100%)
  - Hidroneuquén S.A. (27%)
  - Capital Energy Limited (49%)
  - EnergyDirect Corporation Limited (41%)
  - TransAlta Enterprises Corporation (100%)

*TransAlta Corporation owns all common shares of TransAlta Utilities. Preferred shareholders account for three per cent of the voting shares.

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TransAlta in 1995

- TransAlta's total shareholder return continues to outperform the total return of the Toronto Stock Exchange 300 Index on a five-year basis.
- The new statutory regime for regulation of the Alberta electric industry maintains the framework for a fair return on investment in existing generating assets, while new generating plants will be developed in a competitive market.
- TransAlta Utilities' real unit costs – cents per kilowatt hour excluding inflation – have declined by 1.5 per cent over the past decade compared with an increase of 7.4 per cent in the Canadian Electricity Association utility average.
- TransAlta's Action Plan, submitted to the Government of Canada in response to the Climate Change Voluntary Challenge and Registry Program, included a broad range of programs aimed at returning TransAlta's net contribution of greenhouse gases to the atmosphere to 1990 levels by 2000.
- TransAlta Energy advanced the development of new independent power projects in Ontario, New Zealand and Australia.
- TransAlta Energy has built a strong foundation in the New Zealand energy industry to grow future value for shareholders.

TransAlta has an integrated strategic approach to enhance shareholder value over the long term.

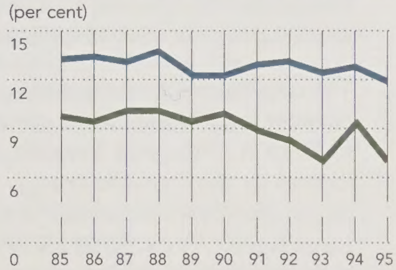
1995 highlights

Financial Highlights
(in millions except return on common shareholders' equity and common share data)

	1995	1994	Increase (Decrease) 1994-95
Electric energy sales – regulated (kwh)	28,380	27,450	930
Electric energy sales – non-regulated (kwh)	3,561	2,860	701
Electric revenues – regulated (net)*	$ 1,172.1	$1,176.9	$ (4.8)
Energy revenues – non-regulated	207.1	130.1	77.0
Net earnings applicable to common shares	181.7	186.9	(5.2)
Capitalization	3,882.7	3,787.4	95.3
Common shareholders' equity	1,542.7	1,515.0	27.7
Expenditures on property and investments	368.7	234.8	133.9
Return on common shareholders' equity (%)	11.8	12.3	(0.5)
Average common shares outstanding	158.9	158.8	0.1
Per common share data ($)			
Earnings	$ 1.14	$ 1.18	$ (0.04)
Dividends	0.98	0.98	(0.00)
Book value (year end)	9.71	9.54	0.17
Market value (year end)	14.63	14.50	0.13
(high)	14.88	16.25	(1.37)
(low)	13.00	13.13	(0.13)

* After deducting charges under the Alberta Electric Energy Marketing Act and the Small Power Research and Development Act.

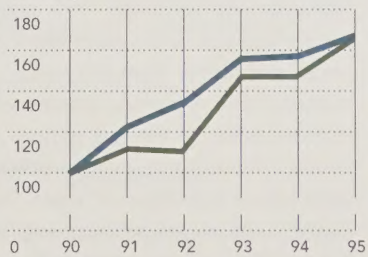
Return on Common Shareholders' Equity Compared to Interest Rates
(per cent)



Return on common equity

Yield on long-term Government of Canada Bonds

Total Shareholder Return Compared to TSE 300
(dollars)



TransAlta

Toronto Stock Exchange 300 Index

Return on TransAlta's common shares vs cumulative returns of TSE 300 total return index for a $100 investment with all dividends reinvested.

letter to

shareholders

Harry Schaefer and Walter Saponja

To our shareholders,

In 1995, we continued to build our core business strengths through solid performance in Alberta. Outside of Alberta, we expanded investments which leverage our core capabilities and strengthened our position in regions where we have an established presence.

The corporation's consolidated earnings in 1995 were $1.14 compared to $1.18 in 1994 – with TransAlta Utilities up and TransAlta Energy down. Dividends on common shares continued in 1995 at $0.98 per share. Earnings per share from the electric utility remained strong at $1.10 per share compared to $1.07 per share in 1994. Earnings from TransAlta Energy contributed $0.04 per share in 1995, a $0.07 per share decrease from 1994.

TransAlta Energy's lower 1995 earnings were a result of lower electricity market prices and higher financing costs related to our Argentina investment, reduced gains on the sale of non-strategic investments and increased write-offs of development costs. The contribution of new projects coming on line in 1996, and the strategic focus for new investments, are expected to improve TransAlta Energy's earnings performance in the future.

TransAlta's total shareholder return (reflecting dividends and changes in the market price of the stock) continues to outperform the total return of the Toronto Stock Exchange 300 Index. This comparison on a five-year basis demonstrates stability and enhanced shareholder value (graph on page one).

Fundamental change is now impacting our industry on a global scale. A new more competitive market is emerging. At a time of such change, unique opportunities become available to those who are prepared. TransAlta has been positioning for the change by improving performance in its core business. At the same time, we have been gaining experience and building a presence in regions where industry change provides opportunities to grow long-term shareholder value. We are also acquiring and developing the expertise which will strengthen our competitiveness.

Operations

Alberta

Performance of our Alberta core electric utility business reflects the ability of TransAlta people to consistently improve upon operational results and create added value for shareholders and customers.

Achievements in overall productivity and safety, as well as generating plant efficiency, build on the corporation's established reputation as one of the premier generating plant operators.

Improvements in overall efficiency, operations and maintenance combined to produce solid gains in environmental performance while, at the same time, reducing overall cost. More information on these achievements by our employees is found on page 9.

At a time when we are moving forward to meet new competitive challenges, two regressive issues have emerged. As the result of an application by the Industrial Power Consumers Association of Alberta, the Alberta Energy and Utilities Board (EUB) ordered, on December 14, 1995, a review of TransAlta Utilities' rates for 1995. We are very concerned with the potentially retrospective nature of this decision in a regulatory regime generally viewed as operating on a forecast, test-year basis. Management has filed applications with both the EUB and the court to have this decision set aside. More information on this issue can be found on page 19.

In addition, the federal government has taken a contradictory step backwards with a discriminatory tax regime. Eliminating the Public Utilities Income Tax Transfer Act (PUITTA) – which provided federal tax rebates to investor-owned utilities to pass on to their customers – is effectively favouring government-owned utilities which do not pay income taxes. TransAlta is working with government and industry to develop a more equitable sharing of this federal income tax burden among both the public and private sectors. Information on PUITTA can be found on page 23.

Ontario

In Ontario, TransAlta Energy shows up strongly through performance of its two independent power plants – which achieved superior availability levels in excess of 95 per cent in 1995. Energy sales from the two plants in 1995 increased by $3.6 million. Also during 1995, construction commenced on TransAlta Energy's third independent power plant in Ontario, at Windsor – scheduled for completion in late 1996.

New Zealand

TransAlta Energy has established a significant presence in New Zealand. During 1995, we expanded our

position in the electricity distribution business around Wellington by doubling our interest in EnergyDirect Corporation Limited to 41 per cent, and investing in 49 per cent of Capital Energy Limited.

In generation, TransAlta Energy commenced construction of New Zealand's first independent power plant and finalized arrangements for a second plant. In each project, we are working with strong local partners. These investments provide a solid foundation for TransAlta Energy to grow its business as the shift towards a competitive market progresses in New Zealand and new opportunities emerge.

Argentina

In Argentina, earnings from Hidroneuquén S.A. were adversely affected by lower electricity market prices and transmission line constraints which limited the amount of electricity that could be sold and by volatility in the financial markets during 1995. TransAlta Energy is working with its partners to improve the performance of this investment. We remain confident in the positive long-term potential of this investment because of the cost stability of hydroelectric generation compared to competing thermal energy sources which will be impacted by fuel price escalation.

Corporate governance

TransAlta's board of directors and senior management consider sound corporate governance to be central to the effective and efficient operation of the corporation. Our existing practices meet or exceed guidelines recently established by the Toronto Stock Exchange Committee on Corporate Governance in Canada. Information on our corporate governance practices can be found on the inside back cover of this report.

Looking to the future – Alberta

TransAlta's experience in selected international markets, which are in various stages of deregulation, is providing important input for our leadership in the restructuring taking place within the Alberta utility industry.

During 1995, the Alberta government, customer stakeholder groups and utilities, including TransAlta, were active in the restructuring process which will lead to Alberta's electricity market becoming more competitive.

A key feature of the new structure includes the phasing out of the Alberta Electric Energy Marketing Act (EEMA) regime by limiting the generating units of Alberta Power, Edmonton Power and TransAlta Utilities which are part of regulated cost averaging, to those already in existence. All new generation, including that to replace aging existing generation, is to be provided through marketplace competition.

TransAlta will retain a solid, competitive position as the new structure evolves because of our low costs and our commitment to continuous improvement. Performance-based incentive regulation contemplated in Alberta's new Electric Utilities Act will allow TransAlta to capitalize on its superior productivity and operational expertise. We believe that performance-based incentive regulation results in greater innovation among all industry participants and lower overall costs for electricity consumers. Additional detail on Alberta industry restructuring can be found on pages 11 and 26.

Management change

On January 28, 1996, TransAlta announced that its board of directors had accepted the resignation of Ken McCready as president and chief executive officer. Based on a review started in November 1995, Mr. McCready and the board concluded it was timely to introduce new leadership to oversee the corporation through the major changes occurring in the industry. Mr. McCready's 33 years of service to the TransAlta group of companies, and his outstanding activities in the areas of the environment and sustainable development, were commended by the board.

Walter Saponja was appointed as interim president and chief executive officer. Mr. Saponja has been president and chief operating officer of TransAlta Utilities since 1994, and has held a number of senior management positions during his 34-year tenure with TransAlta Utilities.

We invite you to read through the following pages where you will learn more about our low costs, improvements in productivity and innovative approach to business.

TransAlta people have built a solid foundation of performance, which is a competitive lever to grow our business as the industry evolves. We acknowledge with gratitude the expertise, commitment and enthusiasm of our staff.

With a flexible, competent and confident work force, an adaptable management style and clear strategic direction, TransAlta is well-positioned to deliver added value to shareholders.

On behalf of the Board of Directors, we are pleased to submit this report.

Harry G Schaefer

Chairman of the Board

W Saponja

President and Chief Executive Officer
February 9, 1996

Left to right: Jim Leslie (Senior Vice-President, Sustainable Development), Mike Pavey (Senior Vice-President & CFO), Walter Saponja (President & CEO; President & COO, TransAlta Utilities), Terry Dalgleish (Senior Vice-President, Law), and Alan Moon (President & COO, TransAlta Energy).

discussion with management

Alberta is moving to a new regulatory framework that will involve more competition. How will this affect TransAlta Utilities?

Saponja: In today's marketplace, generation is no longer a natural monopoly. This transition is largely due to technological advances and the availability of relatively low-cost natural gas as fuel for generation.

The new regulatory framework for electricity that is emerging in Alberta is part of a natural evolution towards greater reliance on market forces. Competition in generation, coupled with increasing customer demands for greater flexibility and choice in their electricity supply, also creates pressure for wider access to transmission and distribution systems.

Dalgleish: A major thrust of the new legislation is the creation of a framework so that decisions about pricing and investment for electricity generation are guided by competitive market forces. In order to achieve such a market-based regime, new generating units are to be developed on a competitive basis, and existing generation is to transition from operating under regulation to operating in the competitive market.

A competitive environment is not new to TransAlta Utilities. A large portion of our customer load is either wholesale or large industrial. These customers have always had the alternative of generating their own electricity.

Pavey: In Alberta, profound dissatisfaction with the Electric Energy Marketing Act (EEMA) has been another catalyst for change. A key aspect of the new regulatory regime in Alberta is the transition from EEMA to a more competitive environment for generation. This transition ensures that customers continue to obtain service from, and pay for, existing generation, and that investment in the existing infrastructure is not placed at undue risk.

Dalgleish: Alberta's new Electric Utilities Act provides the framework for performance-based incentive regulation. Essentially, this creates the opportunity for utilities to deliver greater benefits through productivity gains – a win-win situation for shareholders and customers. This form of regulation will allow TransAlta people to capitalize on their ability to deliver excellent operational performance.

What is the current and future focus of TransAlta Energy's activities?

Moon: Our independent power projects in Ontario and our investments in the distribution and independent power business in New Zealand are currently the primary contributors to earnings. In both Ontario and New Zealand, we are building on our initial investments, which are expected to

make an increasingly positive contribution to earnings in both the short and long term.

TransAlta Energy is also focusing on developing business opportunities in Australia and South America – Argentina, Brazil and Chile. We believe the existing and emerging economic, fiscal and regulatory environments in these areas provide the framework for significant opportunity to grow long-term shareholder value. In addition, TransAlta Energy is monitoring electric industry restructuring developments in specific regions of the United States for potential new business opportunities.

What is happening in Ontario's electric industry and will there be opportunities for TransAlta Energy?

Moon: In Ontario, discussions about a more competitive electric industry progressed during 1995. In this market, TransAlta Energy capitalizes on the corporation's reputation as a leading Canadian investor-owned electric utility which has delivered superior performance since 1911.

TransAlta Energy has combined the strength of that reputation with the solid performance of our existing independent power generation plants and new business relationships to build a presence in the Ontario industry. We are positioning to take advantage of additional opportunities that will arise as the Ontario electric industry shifts to a more competitive model.

How will TransAlta's current and planned investment activity grow shareholder value?

Pavey: The nature of our investments is long term. We are focused on delivering sustained growth in shareholder value that will be realized over the life of these investments.

In terms of overall growth in shareholder value, TransAlta has historically demonstrated solid performance in the marketplace – delivering competitive total shareholder returns. We are committed to sustain and enhance that performance.

How is TransAlta preparing employees for what's required in a more competitive market?

Saponja: Driven by the pressures of a competitive environment, our history is rich with examples of TransAlta people adopting new skills and technology to improve performance – from hydro plant automation in the 1950s, to linemen working safely on live transmission lines to avoid customer interruptions in the 1990s.

Our employees are constantly learning new skills to continuously improve our performance and our service to customers.

Leslie: TransAlta people are also acquiring critical business and operating experience in our international investment and project development activities.

To further prepare for a more competitive business environment in Alberta and elsewhere, we introduced incentive compensation for all employees in 1995. The program focuses action on the achievement of clear goals and measures for our people to create greater value for shareholders and customers.

As TransAlta moves into a more competitive business regime in Alberta and elsewhere, what new skills are required?

Leslie: A priority is to build our capabilities in areas where deregulation is creating significant new opportunities, such as energy marketing. We are also actively developing and acquiring skills in specialized areas of finance and risk management.

Events like our annual employee Technical Excellence Conference, now in its fourth year, confirm our confidence in the flexibility and capability of TransAlta people to adapt to changing conditions, while continuing to deliver excellence in operational performance.

What are the prospects for TransAlta?

Saponja: World-wide restructuring of the electricity industry is creating unique prospects for companies that have anticipated the change and established a presence in key markets. Over the last few years, TransAlta has gained experience in markets that are being restructured – in New Zealand, Argentina and Alberta. We are applying this experience and our core competencies where restructuring creates new opportunities.

In addition, our commitment to sustainable development, which strives to progressively reduce environmental impact while adding greater economic value for shareholders, customers and other stakeholders, is opening up new business opportunities.

We have a strategy that is a realistic and integrated approach to growing our business that will enhance shareholder value over the long term. Our confidence in our approach has its foundation in the ability of our people to continue to improve the standards of excellence which are the basis for TransAlta's competitive edge today.

TransAlta's Mission forms the foundation for the corporate strategic direction.

Mission:
"Grow shareholder value by satisfying customers with competitive electric and thermal energy services in a safe, reliable and environmentally responsible manner."

corporate strategy

In the early 1990's, TransAlta's ongoing strategic development work focused on the implications of emerging trends, such as technological advances in generation, customer requirements for choice, and inequities of Alberta's Electric Energy Marketing Act.

These factors, together with the world-wide shift towards greater reliance on market forces, led to current activities to restructure the electric utility industry in Alberta and globally.

The following criteria guide TransAlta in developing its strategies:

- create value for shareholders;
- enhance relationships with customers;
- capitalize on core strengths of TransAlta people;
- focus on regions where TransAlta currently has a presence.

TransAlta's geographic focus

	Alberta & Interconnected Regions	Ontario & Interconnected Regions	Other Regions in Canada	New Zealand	Australia	South America Argentina, Brazil & Chile
Generation • electric & thermal energy production	● ● ●	● ● ●	●	● ● ●	● ●	● ●
Energy Marketing • critical link to customers	● ●	●	●	● ●	●	●
Common Carrier • electric energy transportation	● ● ●	●	●	● ● ●	●	

● ● ● Established presence ● ● Growing presence ● Area of opportunity

Strategy development in TransAlta builds on past initiatives to enhance value for customers and shareholders.

TransAlta's strategic positioning

Elements of business

TransAlta's strategic positioning is built upon the three essential and integrated elements that comprise TransAlta's evolving business – generation, energy marketing and common carrier.

Generation

- producing electric and thermal energy.

Energy Marketing

- the critical link between generation, common carrier and customers; buying and selling energy and related services; providing market knowledge and building customer relationships.

Common Carrier

- offering customers value-added electric energy transportation (transmission and distribution wires) and associated network services.

The development of these elements of business continues TransAlta's transition from a regulated, vertically integrated utility towards a future where generation is increasingly in the competitive market, common carrier continues to be regulated, and where energy marketing is the key integrating force for all three elements. It is also the basis for continuing to grow outwards from Alberta, on the principles and practices of sustainable development, to a family of businesses operating within and across distinct geographic regions.

Regions

TransAlta's focus in the near-term will be in regions where we have an established presence.

Alberta

- solid, established business;
- connection to markets in the Pacific Northwest.

Ontario

- strong performance in independent power business;
- developing business relationships;
- potential opportunities due to progress on industry restructuring;
- connection to Northeastern US markets.

New Zealand/Australia

- established business presence;
- growth potential from an advanced state of industry restructuring.

South America

Argentina, Brazil and Chile

- economic and energy growth environments;
- growing commitment to market-based regulatory regimes in the electricity sector.

"We will continue to leverage our core strengths and world-class performance in low-cost, efficient operations to deliver solid business results."
– Walter Saponja, President and Chief Operating Officer, TransAlta Utilities

operations
excellence

TransAlta people continue to raise the standards for excellence in operations – in safety, productivity and the innovative application of technology – to further grow value for shareholders and customers.

Solid productivity gains

TransAlta Utilities continues to achieve overall productivity gains with higher sales of electric energy per hour worked by employees. Over the past 10 years, TransAlta Utilities' real unit costs excluding inflation have decreased 1.5 per cent while costs have increased for many other Canadian electric utilities.

In addition, TransAlta Utilities outpaces other Canadian electric utilities with respect to another productivity indicator – operating factor. Operating factor is a measure of the efficiency and reliability of a generating unit. It is a direct reflection of work practices that maintain the integrity of a generating unit while keeping it operating online as much as possible.

TransAlta Utilities owns and operates five of the top 10 thermal generating units in the country, based on operating factor, according to the most recent statistics collected by the Canadian Electricity Association (CEA). The CEA represents the country's largest corporations in the electric utility industry.

Safety milestones

TransAlta Utilities was recognized for the eighth consecutive year by the CEA for having the lowest frequency rate of injury accidents of any Canadian electric utility with over 500 employees.

TransAlta Utilities' power generation business unit employees achieved a significant milestone: one full year with no lost-time accidents. This achievement is due in part to a successful program at the thermal plants that helps employees identify and eliminate unsafe work practices.

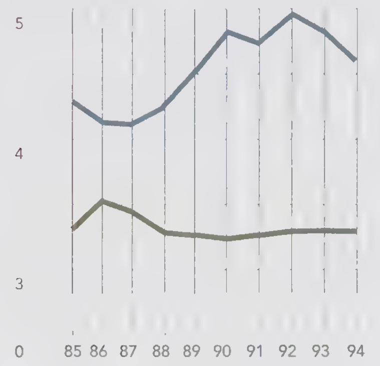
TransAlta Utilities' leadership in safety reflects the high level of employee and management commitment to programs that identify and eliminate potentially unsafe practices in the workplace, and to the early adoption of procedures and training to continuously enhance safety performance.

Beyond compliance

TransAlta Utilities' System Control Centre (SCC) employees were top performers as measured by an operations audit conducted by the Western Systems Co-ordinating Council (WSCC). TransAlta Utilities' SCC employees ensure the integrity of the entire Alberta electric system 24 hours a day, 365 days a year. The WSCC (which encompasses about 65 utilities) performs system reliability and co-ordinated planning and operations for member utilities in the western US, western Canada and northern Mexico.

TransAlta Utilities' control centre assumes a new role as Alberta's new electric industry structure comes into effect January 1, 1996. Under a one-year contract with the Power Pool Council, TransAlta Utilities' staff will dispatch generation for the entire province as directed by the Power Pool Administrator. This system control function is a new function created by the Electric Utilities Act. Our employees have performed similar work for other utilities in the province through the former Alberta Interconnected System Power Pool. For additional information on electric industry restructuring in Alberta turn to page 26.

Performance Comparison
(total unit costs cents/kilowatt hour)



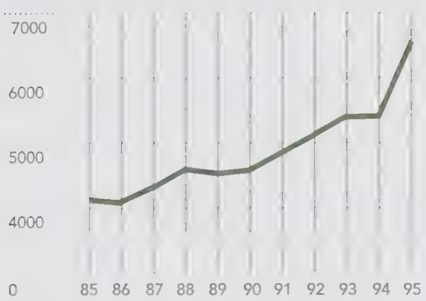
Over the past decade, TransAlta Utilities' real unit costs (cents per kilowatt hour excluding inflation) have *decreased* by 1.5 per cent in constant 1994 dollars compared with an *increase* of 7.4 per cent in the Canadian Electricity Association average.

Above: TransAlta Utilities linemen Scott Sorestad (left) and Evan Thomas use sophisticated live line techniques to relocate equipment near Olds. The techniques allow linemen to work safely on a line while it is still carrying electricity, eliminating the need to temporarily shut off power to customers.

Left: Sundance thermal plant operating foremen Jerome Campbell (seated) and Bill Grant use advanced technology to analyze and improve overall generating unit efficiencies.

Labour Productivity

(kilowatt hours sold per hour worked)



TransAlta Utilities sold 6,547 kilowatt hours of electric energy per hour worked by employees in 1995, compared to 5,338 in 1994.

Sustainable development in action

Through technical initiatives at TransAlta Utilities' thermal and hydro generating plants, employees continue to improve operational and environmental performance. At the thermal plants, one such initiative focused on optimizing the blend of coal used in order to increase electricity production by one half a per cent.

Such improvements in thermal plant efficiency, or heat rate, have also resulted in less coal being used to achieve the same output of electrical energy. Overall savings of about 250,000 tonnes of coal (or two per cent of annual consumption) have been achieved, which reduces emissions to the atmosphere.

At TransAlta Utilities' Kananaskis hydroelectric facility, operating performance was enhanced when employees adopted a new turbine technology to increase the amount of electric energy produced per unit of water passed through the facility.

These initiatives helped contribute to a record total electricity production of 29,810 gigawatt hours in 1995.

Secure, low-cost fuel supply

During 1995, TransAlta Utilities renewed five-year operating agreements with mining contractors at both the Whitewood and Highvale coal mines west of Edmonton, Alberta.

Through performance-based incentive contracts, which have been in place with the mine contractors since 1985, the average cost of mining has been reduced by almost 20 per cent (in constant dollars). This cost reduction has been achieved while absorbing increasing work efforts required over time as more earth and rock have to be removed to access deeper coal seams.

A second long-term contract for supply was negotiated at the Sheerness thermal generating plant, 50 per cent owned by TransAlta Utilities.

Wood pole management

TransAlta Utilities employees' implementation of improved techniques for managing the use of wood power poles resulted in a saving of $1 million as well as environmentally superior practices. The cost reduction was achieved through improved methods for pole testing, treatment and maintenance. The practices allow for power poles to be used over a longer period, and in 1995 resulted in the purchase of 4,800 fewer poles.

Innovative reclamation

In 1995, TransAlta Utilities' employees completed an arrangement for Weyerhaeuser Canada Ltd. to harvest timber on an area before it is mined at the Whitewood Mine. In exchange, Weyerhaeuser planted 8,155 white spruce and 2,000 lodgepole pine seedlings on reclaimed mine land. The new arrangement is not only environmentally beneficial, it also reduces mine operating costs.

Another mine land reclamation project – using rock from areas prior to mining to build nesting islands for waterfowl – resulted in enhanced diversity of our reclaimed land and local waterfowl habitat at no additional cost.

The evolution of electric industry restructuring in Alberta

1982	• Alberta Electric Energy Marketing Act (EEMA) established to reduce disparities in electrical rates throughout the province. • The Alberta government provided a shielding program with the intention to phase-in the impact on TransAlta Utilities' customers.	
1989	• Alberta government program shielding TransAlta Utilities' customers from EEMA ended.	
1990	• Alberta Department of Energy began review of how the electric power industry in Alberta is regulated with a task force of electric utilities, consumer groups and other stakeholders.	
1991	• A series of workshops raised key concerns, including a perception that the EEMA cost-pooling mechanism had a detrimental effect on utility planning and incentives for efficiency.	
1992	• Alberta Department of Energy circulated discussion paper: "Regulatory Framework for the Electric Power Industry". • 72,000 TransAlta customers replied to a survey about the unfairness of subsidizing customers of other utilities through EEMA. • Independent panel formed to review whether the objectives and implementation of EEMA were still valid for the 1990s.	***December:*** TransAlta Utilities filed a "network access" application with the Public Utilities Board to unbundle its rates and provide customers with options for partial services.
1993	• Alberta Department of Energy worked with stakeholders to find a replacement for EEMA, and develop regulatory reforms to preserve and enhance the Alberta Advantage of competitive electricity prices.	
1994	***May:*** Government-appointed steering committee representing major stakeholder groups, including TransAlta Utilities, prepared detailed alternatives to EEMA and electric industry restructuring in Alberta. ***October:*** Alberta Department of Energy released report – "Enhancing the Alberta Advantage: A Comprehensive Approach to the Electric Industry" – based on the steering committee's work, for public discussion.	• Energy Minister Patricia Black said in the Alberta Legislature on October 18, 1994: "The government's objective throughout its discussions with stakeholders is to retain and build upon the most positive features of our existing electric system including reliability and low consumer costs, while positioning the industry to become more competitive as we move into the next century."
1995	***May:*** Legislation for new Electric Utilities Act and the repeal of EEMA passed. • Power Pool Council created. • Electric Transmission Council created. ***November:*** TransAlta Utilities filed restructuring application with the Alberta Energy & Utilities Board (EUB). • Provincial government appointed the Grid Company of Alberta Inc. transmission joint venture as transmission administrator for 1996.	***December:*** Power Pool of Alberta rules finalized. • Regulations to implement the Electric Utilities Act finalized. • TransAlta Utilities received interim approval from the EUB for tariffs under the new legislation.
1996	***January:*** Power Pool began operation in Alberta. ***During the year:*** • EUB hearing to finalize 1996 rates. • Establishment of rules for removal of generation units from regulation.	• Development of performance-based incentive regulation proposals. • Study of customer choice (retail access).

BEYOND 1996 ***... a competitive market develops for new generation***

For additional information on electric industry restructuring in Alberta see page 26.

"TransAlta employees are building our competitive advantage by proactively developing initiatives that satisfy customer needs and add greater economic value, while progressively reducing impact on the environment. That's sustainable development in action."
– Jim Leslie, Senior Vice-President, Sustainable Development

A public attitude survey conducted in Alberta for the Canadian Electricity Association in 1995 found that 90 per cent of the customers surveyed rated TransAlta Utilities' service as "good or excellent".

people
& innovation

TransAlta people continue to build on a solid tradition of excellence in customer service with innovative solutions to meet customer needs.

Left: TransAlta Utilities' marketing analyst Linda Ficko works closely with Imperial Oil Limited's Redwater business leader, Garry Wagner, (left), and Larry Seipert, quality operations maintenance specialist, to develop business initiatives which benefit both companies.

Below: TransAlta Utilities Dave Fisher, (left), substation technologist, and Terry Fisher, protection and control technologist, inspect regulator controls at Shell Waterton's new substation.

Customer relationships

Employees at TransAlta Utilities and Imperial Oil Limited have been working collaboratively to develop business opportunities and operating synergies – expanding the traditional business relationship to deliver benefits for both companies. One initiative, which improved operating efficiencies for both Imperial and TransAlta Utilities, also resulted in maintaining the customer's electrical load by extending the life of an oil field.

During 1995, TransAlta Utilities' employees constructed a new substation at Shell Canada's Waterton gas processing complex. This project is unique in that TransAlta Utilities' employees took the lead role in the engineering, procurement, construction and maintenance of low-voltage switch gear. TransAlta Utilities' people obtained new business as well as an opportunity to enhance skills with the latest technology.

Our focus on solid customer relationships, where employees create win-win situations for both the customer and TransAlta, is key to enhancing shareholder value in the long term.

Supporting youth and education

TransAlta Utilities' people are involved in several school partnerships through which employees volunteer their time and other resources to enhance the quality of education. Safety education continues to be a high priority for customers, and TransAlta employees' presentation of educational safety programs continues to be well received by students and educators alike.

Community involvement

TransAlta Utilities' employees volunteered in various community activities throughout our service area. Some of these activities included:

- support of the Alberta Summer Games;
- record United Way fundraising;
- highway clean-ups;
- toxic waste round-ups;
- participation in economic development planning;
- Safe Eyes and Ears – a community safety program for children in partnership with the RCMP;
- Osprey nesting and bird conservation programs.

Strengthening Aboriginal relationships

TransAlta is committed to strengthening and maintaining open and positive long-term, mutually beneficial relationships with Aboriginal communities that are customers of TransAlta, or affected by company operations.

During 1995, TransAlta Utilities initiated Aboriginal advisory committees with the Paul and Siksika Bands. The committees, comprised of leaders from the Aboriginal community and TransAlta Utilities, meet to collaborate on initiatives which deliver mutual benefit.

Power Smart and Energy Matters

Through Power Smart, 35 Canadian and foreign electric utilities intend to help shift marketplace demand towards more energy efficient products and technologies.

Where fossil fuel generation is involved, more efficient use of electricity will result in reduced emissions to the atmosphere. TransAlta Utilities has been a member of Power Smart Inc. since 1991.

Additional energy efficiency information and advice about energy products, services and technologies is provided to customers through the Energy Matters toll-free hot line telephone service (1-800-267-5300). The service received over 4,000 calls from customers in 1995.

"The progress we've made building our business in New Zealand during 1995 is an example of our corporate strategy in action."
– Alan Moon, President and Chief Operating Officer, TransAlta Energy

leveraging strengths

TransAlta Energy is focused on leveraging the core strengths of the Alberta-based business with strategic investments in selected markets domestically and internationally to grow long-term shareholder value.

Applying core strengths

TransAlta Energy is applying the core strengths of our Alberta-based business to establish business positions in Ontario, New Zealand, Australia and South America. Key characteristics of the corporation's international reputation are:

- skills in independent power;
- superior performance in operating efficiency, safety and productivity;
- excellence in low-cost operations and customer service;
- leadership in environmental performance;
- financial strength and flexibility;
- working with strong partners.

TransAlta Energy's business growth strategy in New Zealand is focused on:

- applying TransAlta's operational, technical and financial expertise;
- investing in both distribution and generation;
- accumulating a solid customer base;
- securing long-term contracts for generation;
- retaining customers through low-cost operations, excellence in customer service and first-class marketing.

Major player in New Zealand

In 1994, TransAlta Energy expanded its position in the New Zealand energy industry with strategic investments in electrical generation and distribution. In 1995, TransAlta Energy continued to build on this foundation.

TransAlta Energy is a major player in New Zealand with significant interests in key segments of the industry. With positions in electrical energy generation and distribution, as well as marketing and trading, TransAlta Energy is competitively positioned to participate in emerging opportunities as the New Zealand energy sector continues to move towards a competitive market.

TransAlta Energy and joint venture partner Mercury Energy Limited are constructing a $125-million, 114-megawatt cogeneration facility in Auckland. Commissioning of the Southdown plant is scheduled for late 1996.

Negotiations were finalized for TransAlta Energy's second New Zealand generation project, a joint venture with Mercury Energy Limited and Fletcher Challenge Limited. Construction is expected to begin in mid-1996 and the $335-million plant is slated to come on stream in 1998. The 350-megawatt combined-cycle plant will be located in the Taranaki region of New Zealand's North Island.

Above: Guy Lefebvre, TransAlta Energy's site manager for the Windsor, Ontario 62-megawatt independent power plant, discusses project details with Mike Meloche of Vollmer & Associates. The $80-million plant, which will supply thermal energy to Chrysler Canada and electricity to Ontario Hydro, is slated for completion in late 1996.

Left: The skyline of Wellington, New Zealand's capital, is the view for a lineman from Capital Power. TransAlta Energy has investments in both Capital Power and EnergyDirect and interests in two generation projects in New Zealand.

New Zealand's Minister of Energy Doug Kidd takes control of excavation at the groundbreaking of TransAlta Energy's Southdown cogeneration facility in Auckland. The 114-megawatt plant is scheduled to come on stream in late 1996.

With strategic investments in Capital Energy Limited and EnergyDirect Corporation Limited, TransAlta Energy gained a significant share in the New Zealand electric distribution sector. Capital Energy Limited owns New Zealand's fourth largest distribution company (Capital Power) which serves the capital city of Wellington. EnergyDirect Corporation Limited is an electric and natural gas distribution company, serving the Hutt Valley area adjacent to Wellington. Additional information on investments in New Zealand is found on pages 29 and 30 of this report.

Enhanced position

In late 1995, the boards of both Capital Power and EnergyDirect agreed to pursue a corporate merger. The proposed merger would increase the value of the combined entities and result in TransAlta Energy becoming the largest shareholder. The merger is expected to result in significant annual savings which will strengthen the merged company's capability to retain and grow the existing customer base. The merger is expected to be completed in 1996.

Activities in Australia

TransAlta Energy's first independent power project in Australia – the Parkeston Power Station – at Kalgoorlie in Western Australia commenced construction in late 1995. The 75-megawatt, natural gas-fired power plant, a joint venture with the Gold Mines of Kalgoorlie Limited group, will supply power to Australia's largest gold mine. The plant is located in a remote area well-suited to localized electric generation. The Parkeston Power Station is scheduled for completion in August 1996.

In September 1995, TransAlta Energy formed a development alliance with Australian Gas Light Company (AGL), the largest pipeline and privately-owned gas marketing utility in Australia. TransAlta Energy and AGL are currently exploring several specific independent power opportunities.

Focus in South America

TransAlta Energy will focus on developing key business prospects in selected markets in South America, specifically in Argentina, Brazil and Chile. These regions have been selected as potential markets with respect to TransAlta Energy's investment criteria. For more information on TransAlta Energy's investment criteria see page 31.

TransAlta Energy is also currently working with its partners in the Piedra del Aguila hydroelectric facility in Argentina to address transmission line constraints and facilitate sales into higher-priced electricity markets. The long-term cost stability of hydro-electric generation is attractive when compared to competing thermal energy sources that are affected by inflation and changing fuel costs.

In Canada

Construction commenced during 1995 on TransAlta Energy's third independent power project in Ontario. The $80-million plant will supply thermal energy to Chrysler Canada's minivan assembly plant in Windsor, and electricity to Ontario Hydro. Completion of the 62-megawatt plant is scheduled for late 1996.

Continuing superior performance of TransAlta Energy's two existing independent power projects in Ottawa and Mississauga is described on page 28 of this report.

During the year, discussions about electric industry restructuring advanced in Ontario. While the specific timeline and direction for a more competitive marketplace are yet to be determined, additional business opportunities are expected to arise. TransAlta Energy is well-positioned as a result of the superior performance of its existing operations which have built on the corporation's expertise as a low-cost, Canadian investor-owned electric utility.

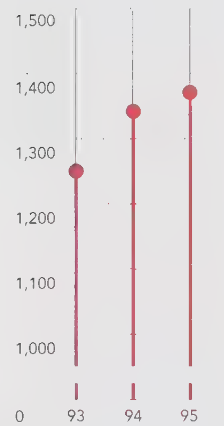
Optimizing customer supply

In 1995, TransAlta Enterprises, a subsidiary of TransAlta Energy, commenced an innovative arrangement with Interprovincial Pipe Line Inc. (IPL) and its affiliate Lakehead Pipe Line Company, Inc. to reduce the cost of electricity for the pipeline companies.

TransAlta Enterprises is working in collaboration with IPL to minimize its electric energy supply costs along the full length of the pipeline through Canada and the United States. The agreement also includes managing IPL's electricity contracts and identifying alternative energy supply strategies.

This agreement is an indication of how TransAlta can provide value and service for customers in non-traditional ways.

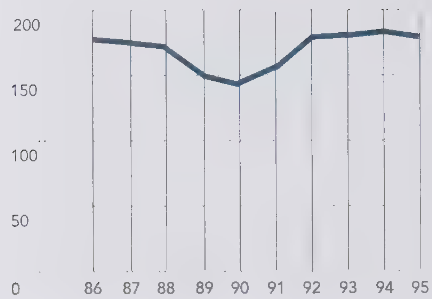
Electricity Sales from Ontario Cogeneration Plants
(millions of kilowatt hours)



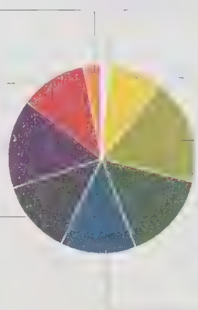
"We are focused on delivering sustained growth in shareholder value over the long term"
– *Michael Pavey, Senior Vice-President and Chief Financial Officer, TransAlta Corporation*

management discussion & analysis

Earnings*
($ millions)



Where the Revenue Dollar was Spent
($ millions)



Earnings* and Dividends
($ per share)

* earnings from continuing operations

Trading Range of Common Shares
($/share)

	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	
High	14.88	16.25	15.50	14.50	13.88	14.38	15.63	14.88	15.69	14.94	High
Low	13.00	13.13	12.63	12.00	11.88	11.13	13.25	13.25	12.50	12.88	Low
Range	1.88	3.13	2.88	2.50	2.00	3.25	2.38	1.63	3.19	2.06	Range

TransAlta Corporation

Net earnings and dividends

TransAlta's net earnings decreased 2.8 per cent in 1995 to $181.7 million, compared to $186.9 million in 1994. Net earnings per share decreased to $1.14 on an average of 158.9 million common shares outstanding. This is compared with $1.18 in 1994, on an average of 158.8 million common shares outstanding.

Net earnings from TransAlta Utilities were $1.10 per share in 1995, a $0.03 per share increase over the $1.07 per share earned in 1994. The increase in TransAlta Utilities' net earnings reflects higher revenue from increased electricity sales to export-driven industrial customers and includes a $1.9 million tax benefit from a non-regulated investment. Net earnings from TransAlta Energy were $0.04 per share in 1995, a $0.07 per share decrease from the $0.11 per share earned in 1994.

As a result of an application by the Industrial Power Consumers Association of Alberta, the Alberta Energy and Utilities Board (EUB) ordered on December 14, 1995, a review of TransAlta Utilities' rates for 1995. The corporation is deeply concerned with the potentially retrospective nature of this decision in a regulatory regime generally viewed as operating on a forecast, test-year basis. TransAlta Utilities has filed applications with the EUB and the Alberta Court of Appeal to have this decision set aside. The EUB has not responded to the merits of the application and the Alberta Court of Appeal application has been adjourned pending action by the EUB. The corporation is not in a position to assess the outcome of the investigation on reported financial results for 1995.

Dividends declared on common shares were $0.98 per share in 1995 – the same level as in 1994. This represents a relatively high payout of earnings compared to other companies traded on the Toronto Stock Exchange.

TransAlta's dividend policy considers several factors including the corporation's earnings record and future earnings prospects, the record of continuity and regularity of dividend payments, cash flow, capital requirements, and the expectations of shareholders.

Expenditures on property and investments

In 1995, TransAlta's expenditures on property and investments were $368.7 million, compared to $234.8 million in 1994.

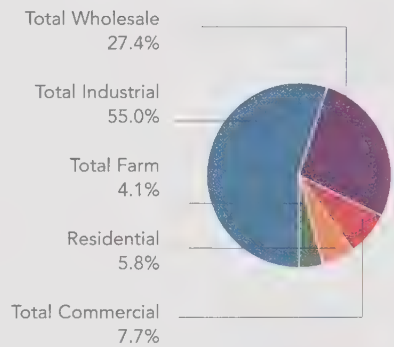
During the year, TransAlta Utilities' expenditures on property were $153.7 million.

TransAlta Energy's expenditures on property and investments in 1995 were $215.0 million – including $82.0 million to acquire a 49 per cent interest in Capital Energy Limited and $61.4 million to acquire a further 21 per cent interest in EnergyDirect Corporation Limited (bringing TransAlta Energy's interest to 41 per cent). Both electric distribution companies operate in the Wellington region in New Zealand. TransAlta Energy also invested $50.6 million in the Windsor (Ontario), Southdown (New Zealand), and Kalgoorlie (Australia) independent power projects, which are currently under construction, and $8.8 million on development activities.

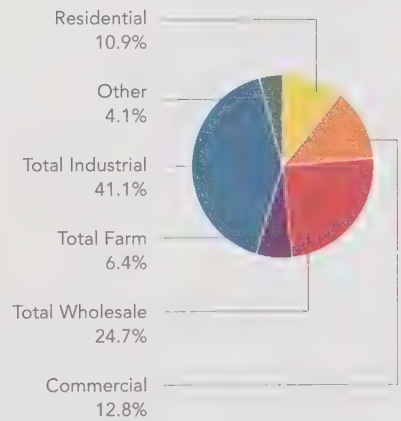
In 1996, expenditures on property are forecast to total about $390 million, with approximately $260 million for TransAlta Utilities, and about $130 million for construction of projects currently committed to by TransAlta

TransAlta Utilities' Total Electric Sales
(millions of kilowatt hours)

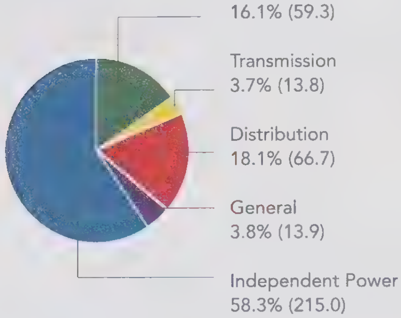
TransAlta Utilities' Electric Energy Sales
(% of total kilowatt hours)



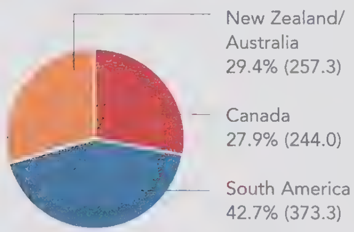
TransAlta Utilities' Electric Energy Sales
(% of total revenues)



Capital Expenditures 1995 Recorded
($ millions)



TransAlta Energy Assets by Geographic Area
($ millions, proportionately consolidated)



Energy. More information on TransAlta Energy's expenditures is found in the "Projects under construction" section on page 30. The increase in 1996 expenditures on property for TransAlta Utilities is due to increased thermal plant and coal mine expenditures and increased metering and computer costs arising from the new electric industry structure in Alberta (see page 26 for additional information).

Proportionate consolidation

Effective January 1, 1995 – in accordance with new requirements of the Canadian Institute of Chartered Accountants – TransAlta retroactively adopted the proportionate consolidation method of accounting for its investments in jointly controlled corporations. These were previously accounted for by the equity method.

As a result, consolidated assets, liabilities, revenues, expenses and cash flow items will increase to reflect TransAlta's proportionate interest in jointly controlled corporations. The proportionate consolidation method does not result in any change to TransAlta's net earnings or shareholders' equity from that reported using the equity method.

TransAlta's share of long-term debt of its jointly controlled corporations is secured solely by the assets of the related jointly controlled corporations. This debt is identified separately as "Debt of Jointly Controlled Corporations". For more information see the consolidated financial statement note 8 on page 42.

Management of environmental, health and safety issues

TransAlta's commitment to sustainable development requires that the corporation attempt to progressively reduce its impact on the environment, while adding greater economic value for customers, shareholders and other stakeholders. To make progress toward becoming a sustainable energy enterprise, TransAlta concurrently pursues excellence in risk management, sustainable business initiatives and standards for compliance. The environmental policy statement on the inside back cover of this report guides the corporation in all aspects of its operations and business decisions.

TransAlta Utilities and TransAlta Energy manage environmental, health and safety (EH&S) compliance, performance and risks through the application of a corporate EH&S management system. Sustainable business initiatives are pursued as an integral part of business management efforts. New business opportunities and changes in business practices which yield the desired economic return, while reducing environmental impacts and wastes, are emerging as an outcome of these efforts.

Water

TransAlta Utilities' water management practices reflect the corporation's commitment to environmental stewardship as a vital element in its business. With respect to water management, TransAlta Utilities aims to meet the needs of multiple uses of water resources upstream and downstream of its hydroelectric facilities. This is achieved through ongoing dialogue with governments, interest groups and the general public.

This commitment is demonstrated through TransAlta Utilities' initiative to address the impact of mining and thermal plant operations on the water level of Wabamun Lake near Edmonton, Alberta. TransAlta Utilities is working with the community, provincial regulators and other stakeholders to

develop a broadly supported proposal intended to provide a sustainable solution to address the impact of operations.

With respect to hydroelectric operations, TransAlta Utilities applies sophisticated management tools to predict and regulate hydro facility flows to meet water resource management requirements.

Land and facilities

TransAlta Utilities conducts an extensive reclamation program for all mining operations. This program was initiated well before reclamation was a mandated requirement. Through its rates, TransAlta Utilities collects an amount to cover the future costs of reclaiming mining operations, and to restore the sites of generation, transmission and distribution facilities. Estimated mining reclamation costs are recorded as operating expenses. Depreciation rates incorporate estimates of service lives and future net salvage costs, including the costs to remove equipment from service and restore the sites, net of estimated recoveries from salvage.

Air

As a producer of coal-fired electricity, the corporation recognizes greenhouse gases as a potential risk from an environmental and economic perspective. While the understanding of the science of climate change continues to evolve, TransAlta has taken the position that voluntary, precautionary action to address this issue is necessary.

In September 1995, TransAlta submitted its Action Plan to the Government of Canada in response to the Climate Change Voluntary Challenge and Registry Program. The corporation's goal announced in 1994 – which applies to all TransAlta Utilities and TransAlta Energy facilities in Canada – is to return its net contribution of greenhouse gases to the atmosphere to 1990 levels by 2000.

TransAlta's action plan addresses the issue of greenhouse gases with a broad range of options, including energy efficiency improvements in corporate operations, customer efficiencies, renewable energy purchases, and domestic and international greenhouse gas offsets. Domestic and international greenhouse gas offsets are initiatives that reduce or absorb greenhouse gases.

Health and safety

TransAlta is committed to the safety of all employees, contractors and other persons on its worksites. The corporation promotes safety awareness and strives to operate all facilities in a manner that enhances public safety and prevents damage to property. The focus of TransAlta's health and safety practices is on compliance and risk management – effective implementation of practices that contribute to sustainable business initiatives by improving productivity and the quality of the work environment. Additional information on safety performance can be found on page 9 of this report.

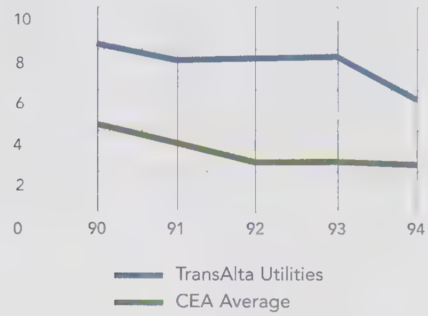
TransAlta Utilities

Net earnings

Net earnings were $175.4 million ($1.10 per share) in 1995, a $5.2 million increase over the $170.2 million ($1.07 per share) earned in 1994. The increase was primarily a result of higher revenues from increased electricity sales to export-driven industrial customers, lower labour costs and lower financing charges. These factors more than offset the

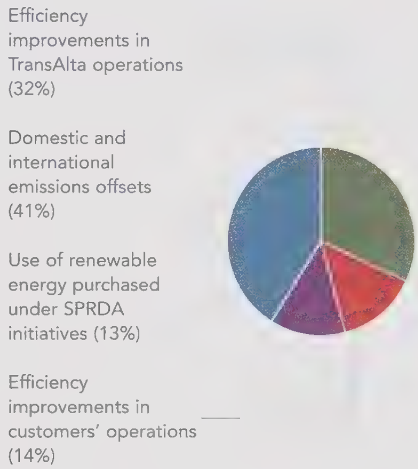
TransAlta Utilities' Safety Record

(injury accidents per 200,000 hours worked)

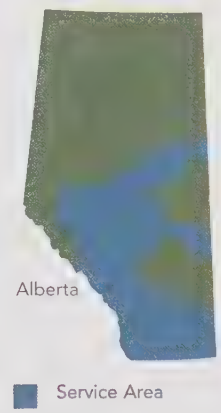


TransAlta Utilities has the lowest frequency rate of injury accidents of any Canadian electric utility with over 500 employees.

Greenhouse Gas Reduction Strategies



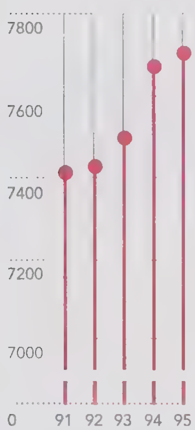
TransAlta Utilities' Service Area



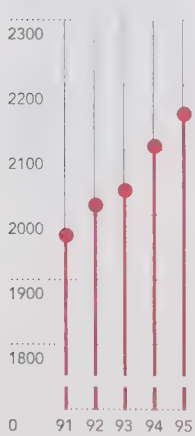
Across its 212,000 square kilometre service area, TransAlta Utilities provided electric energy directly and indirectly in 1995 to about 1.7 million of the 2.6 million people in Alberta.

Industrial Energy Sales
(millions of kilowatt hours)

Wholesale Energy Sales
(millions of kilowatt hours)



Commercial Energy Sales
(millions of kilowatt hours)



impact of higher Alberta Electric Energy Marketing Act (EEMA) and Alberta Small Power Research and Development Act (SPRDA) charges, higher fuel and purchased power costs, and taxes on income related to the increase in electric energy sales. The 1995 net earnings include a $1.9 million tax benefit arising from a non-regulated investment.

As noted previously, the ultimate 1995 financial results for TransAlta Utilities may vary from those reported due to a possible review of TransAlta Utilities' rates for 1995. Further information on this matter can be found on page 19.

Energy sales and revenues

Net electric revenues from regulated operations in Alberta were $1,172.1 million, a decrease of 0.4 per cent from 1994 due to increases totalling $39.8 million in EEMA and SPRDA charges. Energy sales for TransAlta Utilities totaled 28,380 million kilowatt-hours in 1995, an increase of 3.4 per cent from 1994. Temporary energy sales to industrial customers, which are generally priced lower than firm energy sales, have increased 11.8 per cent compared to 1994, resulting in a larger percentage increase in energy sales compared to electric revenues. Energy sales continued to reflect growth in several export-driven sectors of Alberta's economy – particularly the oil and natural gas and petrochemical industries. The strong growth in export-oriented industries was buoyed by low US exchange rates and stronger product prices.

Alberta economy and load growth

Alberta's real economic growth in 1995 was 2.2 per cent, which is reflective of Canada's modest growth of two per cent and approximately three per cent real growth in the US economy.

Economists are predicting that Alberta's growth in 1996 will remain stable and similar to national growth which is forecast to be two per cent. Exports will continue to be an important component of growth in Canada and Alberta.

Accordingly, TransAlta Utilities' energy sales are forecast to grow by 1.9 per cent in 1996. Annual growth of energy sales is forecast to be two to three per cent per year through to the year 2000.

TransAlta Utilities' largest 10 customers – all from the wholesale and industrial customer categories – represented about 42 per cent of TransAlta Utilities' electric revenue in 1995. About 39 per cent of TransAlta Utilities' electric revenue received is from the oil and gas, petrochemical and forestry sectors.

Under the new statutory regime for the regulation of the Alberta electric industry effective January 1, 1996, the cities of Calgary, Red Deer and Lethbridge will receive their electric energy through direct participation in the power pool. By means of the power pool settlement mechanism, and the payment of transmission rates, those cities will pay for their share of TransAlta Utilities' generation and transmission costs which, prior to 1996, were recovered by TransAlta Utilities through wholesale rates charged to those cities. For more information on the new electric industry regime in Alberta see page 26.

In 1996, TransAlta Utilities is forecasting industrial sales to increase by approximately 1.4 per cent. This increase is expected to be led by growth in the petrochemical industry where a competitive dollar is coupled with low-priced, natural gas-based feed stocks to ensure Canadian

producers sustain their position in global markets. Oil pipeline expansions are also expected to contribute to increased industrial sales.

Federal income tax rebate eliminated

Prior to 1990, under the Public Utilities Income Tax Transfer Act (Canada) ("PUITTA") and legislation passed by the province of Alberta, 95 per cent of the federal, and 100 per cent of the provincial income taxes paid by TransAlta Utilities (attributable to its electric utility operations) were rebated to the customers from whom the taxes were collected. PUITTA was established to ensure that customers of investor-owned electric and gas utilities would not pay more for their services than customers of government-owned utilities, which do not pay income tax.

Under PUITTA, federal income taxes paid by investor-owned utilities were rebated to the province of origin, and in Alberta were in turn rebated to customers. Effective with the 1990 taxation year, rebates of provincial income tax were eliminated. In 1993, the amount of federal tax available for rebate was reduced from 95 per cent to 85.5 per cent.

On February 27, 1995, the Federal Minister of Finance announced the elimination of the federal income tax rebates under PUITTA. It is expected that federal income tax rebates will terminate in June 1996. While TransAlta Utilities' rates will not change as a result of the elimination of PUITTA, customers' net bills nevertheless will increase by approximately 6.5 per cent in mid-1996 as a result of the loss of the federal income tax rebate. This increase in customers' net bills will heighten competitive pressure on TransAlta Utilities from alternative energy sources, but is not expected to have a significant impact on earnings. TransAlta is working with government and other industry stakeholders to achieve a more equitable sharing of this federal income tax burden among public and private sector participants in the industry.

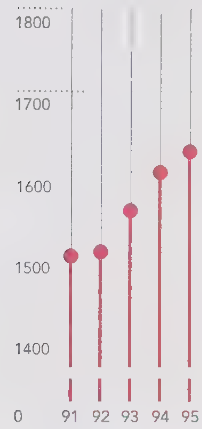
Electric Energy Marketing Act costs

In 1995, TransAlta Utilities' customers contributed $231.3 million, up from $202.9 million in 1994, through EEMA to reduce the power bills of customers of Alberta Power and Edmonton Power. This represented an average of 16.2 per cent of TransAlta Utilities customers' power bills. The purpose of EEMA cost averaging of generation and transmission is to mitigate rate differentials among Alberta's electric utilities.

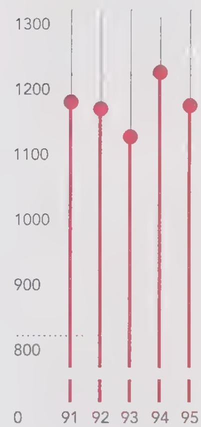
The elimination of the EEMA mechanism is part of industry restructuring and is reflected in the Electric Utilities Act and the Electric Energy Marketing Act Repeal Act, which were passed by the provincial legislature in May 1995. The legislation creates a new regulatory framework for the electricity industry in Alberta beginning January 1, 1996.

Although EEMA is being repealed, the costs of existing generation facilities and all transmission facilities will effectively continue to be averaged and recovered through customer rates. The Electric Utilities Act will continue to provide investors a reasonable opportunity to recover their existing investment in generating facilities, but will not allow the entry of new generating plants into regulated cost averaging. The total cost associated with existing generating plants is expected to gradually decline as these plants are depreciated and retired from regulated service.

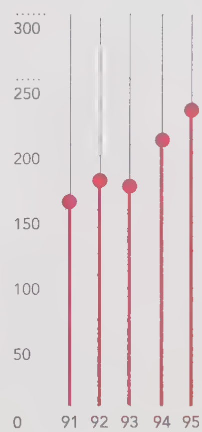
Residential Energy Sales
(millions of kilowatt hours)



Farm Energy Sales
(millions of kilowatt hours)

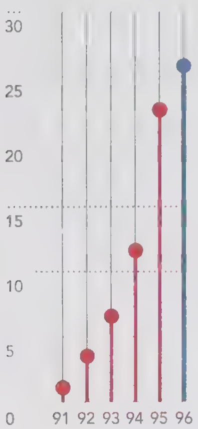


EEMA Charges
($ millions)



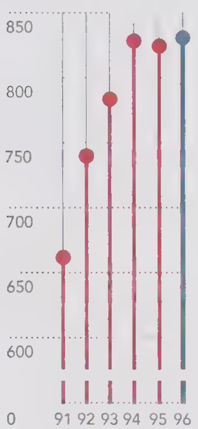
In 1995, TransAlta Utilities' cost of generation and transmission to the Alberta Electric Energy Marketing Act (EEMA) was 2.9 cents per kilowatt hour – 41 per cent lower than Alberta Power costs and 46 per cent lower than Edmonton Power costs.

Payments to Small Power Producers
($ millions)



TransAlta Utilities' payments under the Alberta Small Power Research and Development Act are forecast to increase to about $26 million in 1996.

Operating Deductions
($ millions)



In 1996, total operating deductions for TransAlta Utilities are forecast to increase by about 1.4 per cent.

TransAlta Utilities' Bond Ratings

	Canadian Bond Rating Service Oct. 1995	Dominion Bond Rating Service Oct. 1995
First Mortgage Bonds	A+(High)	AA
Secured Debentures	A+	AA
First Preferred Shares	P-1	Pfd-1

TransAlta Utilities' strong ratings on its bonds and preferred shares allow continued access to the capital markets at very competitive rates.

The intent is that implementation of the new regulatory framework will not in itself cause any material impact on customer rates in 1996 compared to what rates would otherwise have been. Additional information about changes to the electric utility industry in Alberta can be found on page 26.

Payments to small power producers

TransAlta Utilities' payments to small power producers for electricity supplied under the Alberta Small Power Research and Development Act (SPRDA) increased to $23.4 million in 1995, compared to $12.0 million in 1994. Payments to producers operating in 1995 are forecast to increase to about $26 million in 1996 and approximately $27 million in both 1997 and 1998.

Under the program, TransAlta Utilities was required in 1995 to pay a minimum of 5.41 cents per kilowatt hour purchased, which will escalate annually with inflation. This rate is in excess of the current Alberta Integrated System marginal cost of producing energy of about 1.5 cents per kilowatt hour in 1995. Under the new Electric Utilities Act, it is unlikely that any new programs similar to that under the SPRDA will be initiated in the future.

Operating deductions

TransAlta Utilities' operating deductions were $826.4 million in 1995, a decrease of $4.4 million compared to 1994. Operating expenses decreased $19.6 million from 1994, to $248.4 million in 1995, primarily due to lower labour costs, partially offset by increases in operating expenses related to increased electric energy sales. Fuel and purchased power costs increased $10.2 million, to $114.6 million, and taxes on income increased $2.9 million, to $188.9 million, both of which are related to the increase in electric energy sales. Taxes on income were reduced by $1.9 million in recognition of a tax benefit from a non-regulated investment.

Financing charges and liquidity

Financing charges for TransAlta Utilities in 1995 were $175.0 million, compared with $182.5 million in 1994. During 1995, TransAlta Utilities issued $83.3 million 8.60% Series A Secured Debentures and $75.0 million 9.00% Series V Secured Debentures. During the year, 3.5 million cumulative redeemable Series 7.10% preferred shares, totaling $87.9 million, were retracted by shareholders. For more detailed information see consolidated financial statement notes 7 and 8 on pages 41 and 42.

During 1995, TransAlta Utilities satisfied cash requirements for capital programs primarily through internally generated funds from utility operations.

In 1996, financing charges for TransAlta Utilities are forecast to be approximately $172 million. External financing in 1996 will be primarily for refunding purposes.

Expenditures on property

Expenditures on property for TransAlta Utilities were $153.7 million, an increase from the $137.4 million spent in 1994. The increase from 1994 reflects the moderate growth in electricity sales in Alberta. In 1996, expenditures on property are forecast to be approximately $260 million. The change is attributed to increases in thermal plant and coal mine expenditures, and metering and computer costs arising from the new electric industry structure in Alberta.

Productivity

TransAlta Utilities sold 6,547 kilowatt hours of electric energy per hour worked by employees in 1995, compared with 5,338 in 1994. For more information on productivity at TransAlta Utilities turn to page 9.

Rates

Rates for TransAlta Utilities' electric service to customers are set by the Alberta Energy and Utilities Board (EUB). The EUB is an amalgamation of the Alberta Energy Resources Conservation Board and the Alberta Public Utilities Board which was effective in February 1995. Rates are based on the forecast annual revenue required by TransAlta Utilities to cover all operating expenses, as well as to provide an opportunity to earn a fair return on invested capital in comparison to returns earned by enterprises of similar risk. In determining rates, the EUB uses a future test period and may approve interim rates to customers covering the projected cost of service for that year.

Earnings for the regulated electric utility operations are directly affected by the rates approved by the EUB. Variations from forecasted energy sales, operating expense and financing charges also affect earnings for TransAlta Utilities. TransAlta Utilities' rates for service for 1995 are detailed in note 10 to the consolidated financial statements on page 44.

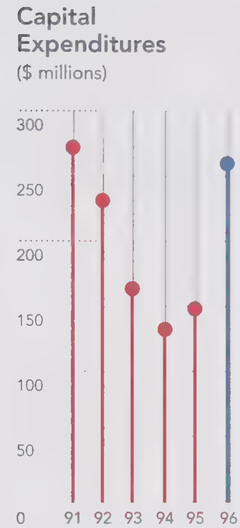
Beginning in 1996, under the new Electric Utilities Act, the rate setting process will continue a framework providing investors with a reasonable opportunity to recover their existing investment and earn a fair rate of return on that investment. The Act also provides the framework for development of performance-based incentive regulation (as discussed on page 26).

TransAlta Utilities supports performance-based incentive regulation as a necessary component of the new business regime to reflect competitive forces and balance the cost-of-service concepts which remain to permit recovery of investment in existing facilities.

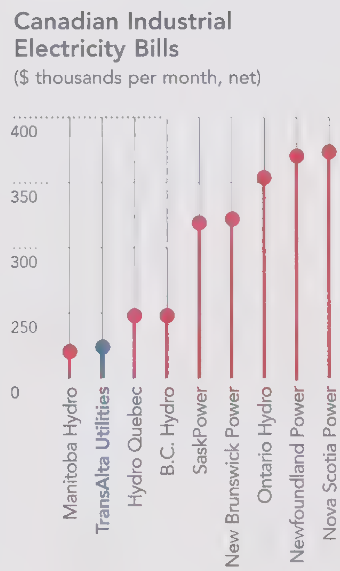
In November 1995, TransAlta Utilities filed for interim rates to the EUB, as mandated under the Act in respect of 1996. The EUB convened a hearing on November 22, 1995 which led to the approval of existing retail rates and the rates to be paid for generation and transmission services provided to various distributors. All rates were approved on an interim refundable basis effective January 1, 1996.

Application by the Industrial Power Consumers Association of Alberta to the EUB

As a result of an application made by the Industrial Power Consumers Association of Alberta, the EUB ordered on December 14, 1995, a review of TransAlta Utilities' rates for 1995. For additional information on this matter see page 19.



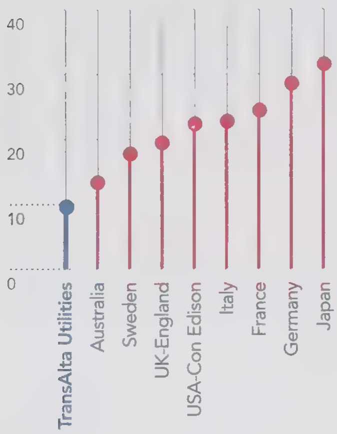
Capital expenditures for TransAlta Utilities are expected to be approximately $260 million in 1996.



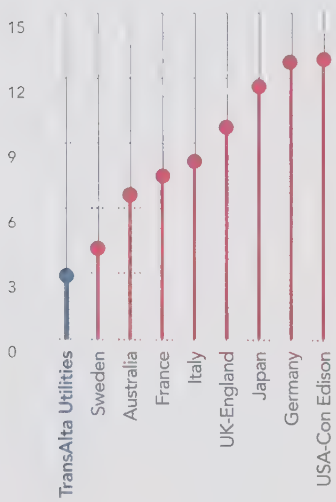
By keeping the cost of electricity low in Alberta, TransAlta Utilities is well positioned for the move to a more competitive marketplace, and to contribute to the province's position to attract new industry.

Source: TransAlta Utilities' survey of electricity rates in January 1996. Based on 10-megawatt industrial load at 90 per cent load factor.

International Domestic Electricity Prices
(cents/kilowatt hour $ Cdn)



International Industrial Electricity Prices
(cents/kilowatt hour $ Cdn)



TransAlta Utilities' industrial and domestic rates are among the lowest of the major utilities in a 1995 international survey.

Source: The Electricity Association, London, England, January 1996. Industrial based on 10-megawatt load, 80 per cent load factor and 90 per cent power factor. Domestic based on annual consumption of 3,300 kilowatt hours. Rates converted to Canadian cents based on January 1, 1996 exchange rate.

The evolution of the Alberta electric industry

A new statutory regime for the regulation of the electric industry in Alberta came into effect January 1, 1996. The passage of the Electric Utilities Act and the repeal of the EEMA Act are the basis for the new regime. As discussed below, the Electric Utilities Act effectively continues a number of the features of the EEMA Act.

In Alberta, a multi-stakeholder group designed a gradual entry into a competitive marketplace for generation. One feature of the transition is that customers of distribution entities are required to pay for the existing Alberta generation, including a current surplus of approximately 400 megawatts. The current surplus is expected to be fully taken up by about the year 1998 or 1999. A transition period to market-based pricing for generation in Alberta will occur as incremental new generation is added, including the replacement of generating units retired from regulated service.

Key features of the new Act are:

- functional segments of TransAlta Utilities' business – generation, transmission and distribution – are segregated for accounting and regulatory purposes only;
- the framework provides for incentives (performance-based incentive regulation) that will stimulate greater innovation and efficiency gains by all utilities – the benefits of which will be shared between customers and shareholders;
- distribution entities are obligated to pay fixed costs associated with existing generating capacity and have an option to take output from that capacity;
- no significant impact on customer rates in the short-term;
- formation of a competitive power pool which matches distribution demand with lowest cost dispatched generation to establish an hourly pool price;
- a power pool council of electricity producers and customer groups establish rules for the power pool operations;
- all existing generation continues to be regulated and, effectively, cost-averaging continues;
- the competitive market for future generation should provide the lowest priced options for customers;
- regulatory treatment of transmission as a province-wide, cost-averaged transmission grid with the same rate for all distribution entities;
- a multi-stakeholder council to monitor and make recommendations on transmission operations and development;
- a study in 1996 to consider issues which would arise if full retail competition at the individual customer level were to be adopted.

A new marketplace emerges

In Alberta, the debate about how to recover the costs utilities incurred to develop existing facilities has been settled by the Electric Utilities Act. The new Act provides for the continuation of cost averaging for existing generation and for all transmission facilities. This approach continues to allow for a reasonable return on investment in existing infrastructure, while providing the framework for a gradual move to a more competitive marketplace for generation.

Beginning in 1996, a competitive market will exist in Alberta for incremental generation needs. Existing generating facilities continue to be regulated by the EUB using cost-of-service principles and performance-based incentives (including a fair return on investment) until retired from regulated service.

The Power Pool

Commencing in January 1996, the sale of electricity from all existing generation in the province will be transacted through a power pool (except that generated for self-consumption). All distribution entities will buy from the pool. A pool administrator will set an hourly rate for the price of electricity, based on generator bidding, to match the demand from the distribution entities. An accounting function administered through the pool will account for fixed cost obligations of distributors for existing generation. Distribution entities and exporters are the only parties that will be able to purchase power from the pool in 1996. Future changes may allow individual customers to transact directly with the power pool.

Power Pool Council

The Power Pool Council is a multi-stakeholder group responsible for establishing the rules of power pool operations and appointing a person, or persons, to carry out the power pool administration function.

The administrator will:

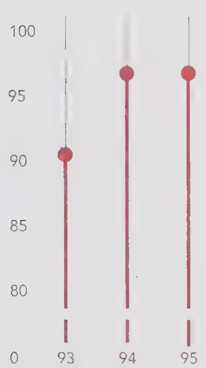
- ensure the safe, reliable and economic operation of the interconnected electric system including adequate system support services, constraints on transmission facilities and transmission line losses;
- determine the order in which electric energy produced by generating units in Alberta is to be dispatched to satisfy the requirements for electricity in the province;
- carry out, on behalf of eligible persons exchanging electric energy through the power pool, financial settlement for the electric energy exchanged (including reporting the pool price for each hour, information required to verify financial settlement and accounting for the obligations and entitlements arising from existing generation).

Transmission

Transmission costs for owners of transmission facilities in the province will continue to be pooled and averaged, and approved by the EUB. Transmission services will continue as a regulated monopoly and be operated as one province-wide system. The transmission system and transmission rates will be managed by a Transmission Administrator; however, facilities will continue to be owned and controlled by their current owners. TransAlta Utilities, and others who currently own transmission facilities in the province, have jointly created and own a corporation – The Grid Company of Alberta Inc. – primarily for the purpose of developing transmission tariffs.

The provincial government has appointed the Grid Company as Transmission Administrator for 1996. Non-discriminatory access to the transmission system will be available to all suppliers and distributors. Tariffs will cover the costs of all transmission facilities, and will effectively average these costs province-wide – consistent with the former EEMA mechanism.

Performance of Cogeneration Plants
(percentage of time plant was available to supply energy)



TransAlta Energy's cogeneration plants in Ontario continued to post strong availability results. The two facilities were the first power plants in the world to use the high-efficiency General Electric LM6000 gas turbines derived from aircraft jet engine technology.

Transmission Council

A multi-stakeholder council will monitor operations of the Transmission Administrator to ensure fair and equal access to the provincial system. With representation from each of the utilities and other stakeholders, the Council may also make recommendations on transmission development.

The Council's mandate will include development of a dispute resolution mechanism to ensure that there is no preferential treatment to owners of transmission facilities, and no discriminatory treatment against non-owners. Ultimate appeal, in a case where a dispute cannot be resolved, will be made to the EUB.

Distribution

Six distribution entities which are designated in the Act – TransAlta Utilities, Alberta Power, Edmonton Power, and the cities of Calgary, Red Deer and Lethbridge – are obligated to pay the fixed costs of all existing generating capacity and have a corresponding option to purchase the output.

The regulations stipulate the percentage of fixed costs of existing generating capacity that each distribution entity will pay. In return, the generator's obligation with the distribution entities will take the form of a price guarantee by the generator, up to a certain level of generation.

Under the new statutory regime for the regulation of the Alberta electric industry effective January 1, 1996, the cities of Calgary, Red Deer and Lethbridge will receive their electric energy through direct participation in the power pool. By means of the power pool settlement mechanism and the payment of transmission rates, those cities will pay for their share of TransAlta Utilities' generation and transmission costs which, prior to 1996, were recovered by TransAlta Utilities through wholesale rates charged to those cities.

Outlook for TransAlta Utilities

TransAlta Utilities is well positioned to take advantage of opportunities as the new electric industry structure evolves in Alberta. Continual improvements in overall productivity and low-cost performance provide the solid basis for TransAlta Utilities to succeed within a performance-based incentive regulatory framework.

TransAlta Energy

Earnings and performance

In 1995, TransAlta Energy contributed $0.04 to earnings per share, compared to $0.11 per share in 1994. The 1995 results were lower as a result of lower electricity prices and higher financing costs of the Hidroneuquén S.A. hydroelectric facility in Argentina, reduced gains on the sale of non-strategic investments and increased write-offs of development costs. The increase in write-offs of development costs reflects the corporation's strategy to focus development efforts on select geographic regions where it has an established presence.

The results for 1995 reflect continuing superior performance from operations of the two Ontario independent power projects which continued to achieve availability levels in excess of 95 per cent. Earnings from Hidroneuquén S.A. were negatively impacted in 1995 by lower electric power prices in Argentina, by transmission line constraints which limited the amount of electricity that could be sold into the higher-priced markets, and by increased financing costs during 1995,

which stemmed from uncertainty in Argentine financial markets. Results for 1995 also include $0.04 per share attributable to development fee income resulting from developing projects on behalf of third parties.

The performance of the Hidroneuquén S.A. investment, which owns a 59 per cent interest in the 1,400-megawatt Piedra del Aguila (PdA) hydroelectric facility, may continue to be negatively affected for the next several years due to conditions stated above. TransAlta Energy is currently working with its partners to increase transmission capacity which would facilitate sales into the higher-priced electricity markets over the long term. Lower cost and longer term financing will be put in place once stability returns to the Argentine financial markets.

Investment returns from the New Zealand distribution business (Capital Energy Limited and EnergyDirect Corporation Limited) are anticipated to grow steadily over the next three years as electricity rates rise and as cost efficiencies for the companies are realized.

Revenues

Revenues from TransAlta Energy's two Ontario cogeneration facilities increased by $3.6 million. Additionally, TransAlta Energy's proportionate share of revenues from Hidroneuquén S.A. increased by $2.7 million from 1994, and revenues were $70.7 million from Capital Energy Limited and EnergyDirect Corporation Limited. The latter amount reflects TransAlta Energy's 41 per cent interest in EnergyDirect Corporation Limited as of October 1995, when a further 21 per cent investment was acquired. A 49 per cent interest in Capital Energy Limited was acquired in January 1995.

Operating deductions

TransAlta Energy's total operating deductions, including taxes, were $174.9 million in 1995, compared to $94.5 million in 1994. The change reflected TransAlta Energy's proportionate share of operating costs from its new investments in Capital Energy Limited and EnergyDirect Corporation Limited. Development write-offs were also higher in 1995 as a result of TransAlta Energy narrowing its focus on strategic locations.

Expenditures on property and investments

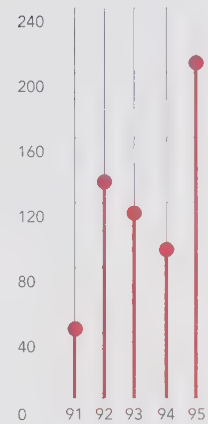
In 1995, expenditures on property and investments were $215.0 million, an increase from $97.4 million spent in 1994. This included $143.4 million on investments in New Zealand, construction expenditures of $50.6 million on the Windsor (Canada), Southdown (New Zealand) and Kalgoorlie (Australia) independent power projects, and $8.8 million on project development activities.

In January 1995, TransAlta Energy purchased 49 per cent of the common shares of Capital Energy Limited for $82.0 million. Capital Energy Limited owns 100 per cent of Capital Power Limited – New Zealand's fourth largest electric distribution company which serves the country's capital city of Wellington.

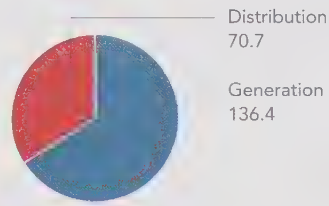
TransAlta Energy also invested $61.4 million to increase its holding in EnergyDirect Corporation Limited to 41 per cent from the 20 per cent purchased in December 1994. EnergyDirect Corporation Limited is an electricity and natural gas distribution company operating adjacent to Capital Energy Limited's service area.

Project Expenditures for TransAlta Energy
($ millions)

As new investments are identified and developed, spending is expected to continue to be variable.



Revenue from Generation and Distribution Assets
($ millions)



In November 1995, the boards of directors of Capital Energy Limited and EnergyDirect Corporation Limited recommended a merger of the two companies subject to shareholder and regulatory approval. With completion of the merger expected in 1996, the combined corporation would be the third largest electric distribution company in New Zealand. The merger would also accelerate the delivery of cost efficiencies to shareholders and customers.

In November 1995, TransAlta Energy provided a loan of $35 million US to Hidroneuquén S.A. to refinance debt that could not be borrowed cost-effectively in the Argentine financial markets. The loan is repayable in November 1996 and bears interest at competitive Argentine interest rates.

Projects under construction

During 1995, construction commenced on TransAlta Energy's wholly-owned, 62-megawatt cogeneration facility in Windsor, Ontario. This $80-million project is scheduled for completion in late 1996. TransAlta Energy has signed a 20-year power purchase agreement with Ontario Hydro for the supply of power from the Windsor plant, and has entered into a gas supply contract for the term of the power purchase agreement.

Construction also commenced on a 114-megawatt cogeneration plant in Auckland, New Zealand. The $125-million Southdown cogeneration project, which is a 50/50 joint venture between TransAlta Energy and Mercury Energy Limited, is scheduled for completion by November 1996. TransAlta Energy will operate the plant. Mercury Energy Limited has signed a 15-year purchase agreement with the joint venture for supply of power from the Southdown facility. A gas supply contract has also been entered into for the term of the power agreement.

In September 1995, TransAlta Energy entered into a joint venture to build a $335 million, 350-megawatt natural gas-fired power plant in the Taranaki region of New Zealand's North Island. Construction of the project, which is a joint venture between TransAlta Energy and Fletcher Challenge Limited, is expected to commence in mid-1996 with completion scheduled for mid-1998. TransAlta Energy will operate the plant. Upon completion of construction of the plant, Mercury Energy Limited will acquire an equal one-third equity interest in the venture with TransAlta Energy and Fletcher Challenge Limited. Fletcher Challenge Limited, Mercury Energy Limited and TransAlta Energy have entered into 12-year power purchase agreements for the 350-megawatt output of the facility. TransAlta Energy's share of the total output is 83 megawatts. A 12-year gas supply contract has been entered into with Fletcher Challenge Limited.

TransAlta Energy also established a presence in Australia in March 1995 with a project to build a 75-megawatt natural gas-fired power plant at Kalgoorlie in Western Australia. Construction of the $50-million plant, which is a 50/50 joint venture between TransAlta Energy and the Gold Mines of Kalgoorlie (GMK) group has begun and is expected to be complete by August 1996. Electricity from the plant will be sold under a 20-year contract to Australia's largest gold mine, which is owned by the GMK. TransAlta Energy will operate the plant.

Liquidity, financing charges and risk management

TransAlta Energy's financing charges were $43.9 million in 1995 compared to $24.8 million in 1994.

TransAlta Energy's $250-million US credit facility was renewed and amended by an agreement dated November 3, 1995. The credit facility is due August 10, 1996 with the option of renewal for a further year by TransAlta Energy and the lenders. See note 8 to the consolidated financial statements on page 42 for more information. The credit facility provides interim financing for TransAlta Energy to pursue independent power and other investments in Canada and abroad.

In November 1995, a $100-million US dollar equivalent credit facility was established with a syndicate of New Zealand and Australian banks. See note 8 to the consolidated financial statements on page 42 for more information. The credit facility will provide interim financing for TransAlta Energy to pursue independent power and other investments in New Zealand and Australia.

Non-recourse financing is in place for TransAlta Energy's two Ontario cogeneration plants. Through non-recourse debt financing, financial exposure is limited to TransAlta Energy's equity investment in the project or joint venture. The debt of jointly controlled corporations is non-recourse to TransAlta Energy, as it is secured only by the assets of the jointly controlled corporations.

Financial risk management

In 1995, TransAlta Energy adopted a financial risk management policy which governs the use of financial

instruments. TransAlta Energy uses various financial instruments to reduce its exposure to fluctuations in foreign exchange rates and interest rates and thus reduce risk. Senior management approves and monitors all transactions involving financial instruments.

The principles of TransAlta Energy's financial risk management policies are:

- financial instruments are used solely for the purpose of reducing risk;
- financial instruments are not used for speculative purposes;
- financial instruments with leveraged features are not used.

Management's decision to utilize financial instruments considers the cost of the instrument, forecasts of cash flows from operating, investing and financing activities including timing and volatility.

TransAlta Energy's policy also sets out approved procedures and reporting practices.

For more specific details on the financial instruments utilized by TransAlta Energy, refer to the consolidated financial statement note 1(l), Accounting Policies – Financial Instruments on page 37 and note 16, Financial Instruments on page 47.

Outlook for TransAlta Energy

TransAlta Energy's key strategy for the future is to apply TransAlta Corporation's 85 years of engineering, operating and financing expertise in the electric industry to independent power, common carrier and marketing activities in selected markets.

Within Canada, TransAlta Energy is focused on opportunities in markets where it has a solid presence, primarily Ontario, and where the outlook for industry change and opportunities are most attractive. New technology and fundamental industry change also have TransAlta Energy focused on developing new integrated energy services for customers. TransAlta Energy has taken deliberate steps to enhance its alliances with customers to optimize future business potential in a less regulated environment. As well, TransAlta Energy is ensuring sustainable development continues to be an overall consideration in business decisions.

TransAlta Energy will continue to concentrate its efforts in Ontario, elsewhere in Canada, New Zealand and Australia, and South America (Chile, Argentina and Brazil). Additional information on projects in Canada and other regions is found on pages 15 to 17 of this report.

In future years, TransAlta Energy's investments in the electricity sector are expected to make a growing contribution to earnings. For 1996, earnings are forecasted to be similar to 1995 earnings due to continued low electricity prices in Argentina. Earnings in 1997 and thereafter are expected to increase as independent power projects currently under construction are completed and brought into service.

TransAlta Energy's New Zealand investments in Capital Energy Limited and EnergyDirect Corporation Limited are expected to make an increasingly positive contribution to earnings over the next three years, as cost efficiencies are delivered and customer rates are increased to provide a fair rate of return on the investment as permitted under New Zealand regulations. TransAlta Energy's investment in New Zealand with EnergyDirect Corporation Limited, Capital Energy Limited, and two independent power projects allows TransAlta Energy to play an important role in the New Zealand electric sector.

Developing opportunities outside Canada pose additional risks due to different political and economic environments. To mitigate these risks, TransAlta Energy will focus on areas where it already has a presence, while assessing each investment opportunity with specific guidelines relating to the country, the project or investment, and local partners.

TransAlta Energy's guidelines for investments in a particular region include pursuing opportunities in countries with growing, market-based economies and a growing demand for electric energy. Other criteria include monetary stability with acceptable inflation, foreign exchange and currency convertibility risks. In addition, TransAlta Energy only pursues opportunities where it can be an active participant and add value through applying its engineering, operating and financing expertise. The returns from a particular investment will be commensurate with overall country and project risk, with limited or non-recourse project financing preferred.

Working with well-established local partners is another key element in TransAlta Energy's future growth strategy. TransAlta Energy seeks local partners who have values and managerial styles compatible with TransAlta Energy, are able to operate effectively in local social, political, legal and regulatory environments and make a significant investment of their own capital in the project. TransAlta Energy will continue to concentrate on opportunities to work with local partners to share expertise, capital and risk – and to expand potential investment opportunities.

Management Responsibility

In management's opinion, the accompanying consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of generally accepted accounting principles and policies consistently applied and summarized in the consolidated financial statements. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to February 9, 1996. Management is responsible for all information in the annual report. Financial operating data in the report are consistent, where applicable, with the consolidated financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored by management and by internal auditors. In addition, the internal auditors perform appropriate tests and related audit procedures.

The consolidated financial statements have been examined by Ernst & Young, independent Chartered Accountants. The external auditor's responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The Auditors' Report outlines the scope of their examination and sets forth their opinion.

The Audit Committee of the Board of Directors is comprised of independent directors. The Audit Committee meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also recommends, for review by the Board of Directors and approval of shareholders, the appointment of the external auditors. The internal and external auditors have full and free access to the Audit Committee.

President and Chief Executive Officer
February 9, 1996

Senior Vice-President and Chief Financial Officer

Auditors' Report

To the Shareholders of TransAlta Corporation:

We have audited the consolidated statements of financial position of TransAlta Corporation as at December 31, 1995 and 1994 and the consolidated statements of earnings and reinvested earnings and cash flows for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young

Calgary, Canada
February 9, 1996

Chartered Accountants

Consolidated Statements of Earnings and Reinvested Earnings

(in millions except net earnings per share)

	Note	Year Ended December 31 1995	1994 (Restated) (Note1(b))
Electric revenues – regulated	10	$ 1,426.8	$ 1,391.8
Less: Alberta Electric Energy Marketing Act net charge	9	231.3	202.9
Alberta Small Power Research and Development Act charge	14	23.4	12.0
		1,172.1	1,176.9
Energy revenues – non-regulated	11	207.1	130.1
		1,379.2	1,307.0
Operating deductions			
Regulated			
Operating expenses		248.4	268.0
Fuel and purchased power		114.6	104.4
Taxes, other than taxes on income		47.6	47.0
Depreciation		226.9	225.4
Taxes on income	12	188.9	186.0
Non-regulated	11	174.9	94.5
		1,001.3	925.3
Operating income		377.9	381.7
Allowance for funds used and interest capitalized during construction	2	6.2	12.6
Investment and other income	4, 11	18.4	9.9
Earnings before financing charges		402.5	404.2
Financing charges			
Interest charges			
Long-term debt – recourse		149.8	137.9
– non-recourse		11.9	12.1
Long-term debt of jointly controlled corporations		19.1	15.4
Short-term debt		7.2	8.9
		188.0	174.3
Preferred share dividend requirements of a subsidiary		32.4	39.0
		220.4	213.3
Minority interest in subsidiary of a jointly controlled corporation		0.4	4.0
Net earnings applicable to common shares	12	181.7	186.9
Common share dividends		155.7	155.6
Reinvested earnings		26.0	31.3
Opening balance		578.1	546.8
Closing balance		$ 604.1	$ 578.1
Net earnings per share			
Average common shares outstanding		158.9	158.8
Net earnings per share		$ 1.14	$ 1.18

see accompanying notes

Consolidated Statements of Financial Position

(in millions)

	Note	December 31 1995	1994 (Restated) (Note1(b))
Assets			
Property			
Land, buildings, plant and equipment	2, 8	$ 6,607.3	$ 6,195.6
Less: accumulated depreciation		2,475.7	2,207.4
		4,131.6	3,988.2
Investments	4	18.5	62.5
Current assets			
Cash and short-term investments		50.4	63.0
Accounts receivable		272.6	236.0
Materials and supplies at average cost		47.3	47.1
		370.3	346.1
Deferred costs	5	32.0	46.9
Total assets		$ 4,552.4	$ 4,443.7
Future costs for small power producers' contracts	14	$ 517.5	$ 347.6
Capital and Liabilities			
Common shareholders' equity			
Common shares	6	$ 915.8	$ 914.7
Contributed surplus		17.2	17.2
Reinvested earnings		604.1	578.1
Cumulative translation adjustment		5.6	5.0
		1,542.7	1,515.0
Preferred shares of a subsidiary	7	371.9	462.8
Minority interest in subsidiary of a jointly controlled corporation		73.3	75.0
Long-term debt of subsidiaries – recourse	8	1,644.0	1,458.0
– non-recourse	8	109.9	111.9
Long-term debt of jointly controlled corporations	8	140.9	164.7
		3,882.7	3,787.4
Current liabilities			
Bank loan and and short-term notes of a subsidiary		51.7	142.8
Accounts payable and accrued liabilities		195.3	177.8
Dividends payable		46.3	47.8
Income taxes payable		9.4	7.7
Current portion of long-term debt	8	114.2	34.1
		416.9	410.2
Deferred credits			
Deferred income taxes		47.3	45.3
Customer and other contributions		205.5	200.8
		252.8	246.1
Total capital and liabilities		$ 4,552.4	$ 4,443.7
Obligations for small power producers' contracts	14	$ 517.5	$ 347.6

On behalf of the board:

Harry G Schaefer
Director

Director

see accompanying notes

Consolidated Statements of Cash Flows

(in millions)

	Note		Year Ended December 31 1995		1994 (Restated) (Note1(b))
Cash from (applied to) operations					
Net earnings applicable to common shares		$	181.7	$	186.9
Operating items not using cash			273.5		250.9
			455.2		437.8
Change in non-cash working capital balances	15		(24.5)		(2.8)
Common share dividends			(155.7)		(155.6)
			275.0		279.4
Cash from (applied to) investments					
Additions to property					
Regulated property			(153.7)		(137.4)
Less: allowance for equity funds used during construction			2.8		4.0
			(150.9)		(133.4)
Non-regulated property			(212.2)		(49.5)
			(363.1)		(182.9)
Investments			(1.1)		(43.0)
Proceeds on sale of investments			4.6		38.3
Other			(1.7)		(4.9)
			(361.3)		(192.5)
Cash (deficiency) surplus before financing		$	(86.3)	$	86.9
Financing					
Long-term financing					
Common shares		$	1.1	$	1.1
Long-term financing of subsidiaries					
TransAlta Utilities Corporation					
Long-term debt			158.9		80.4
Repayment of long-term debt			(6.9)		(220.6)
Redemption or purchase of preferred shares			(90.9)		(86.2)
Other			9.8		15.0
TransAlta Energy Corporation					
Long-term debt – recourse			123.2		52.1
– non-recourse			(4.5)		(4.1)
(Repayment) issue of long-term debt of jointly controlled corporations			(25.9)		29.5
Increase (decrease) in long-term financing			164.8		(132.8)
Short-term financing					
(Decrease) increase in bank loan and short-term notes			(91.1)		105.7
Decrease (increase) in cash and short-term investments			12.6		(59.8)
(Decrease) increase in short-term financing			(78.5)		45.9
		$	86.3	$	(86.9)

see accompanying notes

1. Summary of accounting policies

a) Generally accepted accounting principles

The consolidated financial statements of TransAlta Corporation ("the corporation") have been prepared by management in accordance with accounting principles generally accepted in Canada.

The corporation is incorporated under the laws of Canada and is engaged primarily in the production and sale of electric and thermal energy. Its activities are classified as one segment for financial reporting purposes.

b) Consolidation and investments

The consolidated financial statements include the accounts of the corporation, all wholly-owned subsidiaries and the proportionate share of the accounts of jointly controlled corporations. TransAlta Utilities Corporation ("TransAlta Utilities") and TransAlta Energy Corporation ("TransAlta Energy") are the principal operating subsidiaries.

TransAlta Utilities owns and operates electric generation, transmission and distribution facilities in the province of Alberta.

TransAlta Energy is engaged in Canada and internationally in electricity generation, thermal energy supply, electricity distribution and gas distribution.

Investments in entities in which the corporation exercises significant influence are accounted for using the equity method. Other investments are carried at cost.

Effective January 1, 1995, the corporation retroactively adopted the new requirements of the Canadian Institute of Chartered Accountants with respect to the proportionate consolidation method of accounting for its investments in jointly controlled corporations. Using this method, the corporation has recorded its pro-rata share of jointly controlled corporations' assets, liabilities, revenues, expenses, and cash flows on a line-by-line comparative basis. This method does not result in any change to net earnings or shareholders' equity from that previously reported using the equity method.

c) Regulation

TransAlta Utilities is regulated by the Alberta Energy and Utilities Board ("EUB"), an amalgamation of the Alberta Energy Resources Conservation Board and the Alberta Public Utilities Board effective February, 1995 pursuant to the Hydro and Electric Energy Act (Alberta); pursuant to Part 2 of the Public Utilities Board Act (Alberta); pursuant to the Electric Utilities Act (Alberta); and is subject to the Provincial Water Power Regulations (Alberta). These acts and regulations cover such matters as rates, construction, operations, financing and accounting.

d) Property

Land, buildings, plant and equipment are carried at cost. TransAlta Utilities provides for depreciation on a straight-line basis using various rates as approved by the EUB, based on depreciation studies prepared by TransAlta Utilities. Depreciation rates incorporate estimates of service lives and future net salvage costs. Estimated future net salvage costs include the costs to remove plant from service, net of estimated recoveries. Estimated costs to reclaim mining properties are recorded as operating expenses primarily on a unit-of-production basis.

Independent power plants are carried at cost, including estimated removal costs less estimated salvage value and are depreciated on a unit-of-production basis based upon production estimated for the term of the related power sales contracts. Costs capitalized for major maintenance expenditures are amortized over the term of the expected benefit on a unit-of-production basis.

TransAlta Energy's pro-rata share of the plant and equipment of jointly controlled corporations is depreciated using the straight-line method over the useful life of the asset.

e) Allowance for funds used and interest capitalized during construction

TransAlta Utilities capitalizes an allowance for funds used during construction at the cost of capital including the cost of equity related to property under construction. This amount is a non-cash item of income which will be charged and recovered in rates to customers over the service life of the assets, commencing with their inclusion in rate base.

TransAlta Energy capitalizes interest incurred for plant under construction. This interest is included in the capital cost of the related property and is depreciated at the same rates used for these assets.

f) Deferred costs

Financing costs of TransAlta Utilities are amortized to earnings as follows:

Debt issues – over the lesser of the remaining original life or the estimated average life of the issue.

Preferred share issues – over the estimated average life of the issue.

Gains or losses realized on the purchase of debt for sinking fund purposes are amortized over the remaining life of the issue. These policies are in accordance with the method of determining TransAlta Utilities' cost of capital for regulatory purposes.

Financing costs of TransAlta Energy are amortized to earnings on a straight-line basis over the term of the related debt issue.

Costs incurred by TransAlta Energy to develop potential investments are deferred until construction of a plant commences or acquisition of an investment has been completed, at which time the costs are included in property or investments. When it has been determined that construction of a plant or an acquisition of an investment will not occur, the related development costs are included in operating expenses.

g) Customer contributions

Customer contributions to TransAlta Utilities for new service connections are included in deferred credits and amortized to earnings at a composite rate of approximately three per cent per annum.

h) Revenue recognition

Revenues are recognized on the accrual basis, which includes an estimate of the value of electricity consumed by customers to the end of the year and billed subsequently.

i) Taxes on income

For federal income tax purposes, earnings from the operating activities of TransAlta Utilities are taxed using a method under which accounting income and taxable income are equated through the timing of deductions for income tax purposes. All income taxes are paid on a current basis and no income taxes are deferred.

As directed by the Alberta Public Utilities Board, effective 1991 TransAlta Utilities adopted the taxes payable method of accounting for provincial income taxes, under which taxable income differs from accounting income through differences in the timing of deductions for income tax purposes from the amounts charged to earnings. Alberta income taxes are included in operating deductions and no income taxes are deferred.

Income taxes on the allowance for funds used during construction of TransAlta Utilities are recorded when the costs of the constructed assets are depreciated.

Since there is a reasonable expectation that when income taxes become payable they will be included in rates approved by the EUB and recovered from the customers of TransAlta Utilities, federal income tax reductions of $58.8 million, provincial income tax reductions of $22.5 million and income taxes on the allowance for funds used during construction have not been recorded.

TransAlta Energy utilizes the tax allocation method of accounting for income taxes.

j) Translation of foreign currency

Monetary assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. The resulting exchange gains and losses on these items are included in the determination of earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining life of the debt. This method is in accordance with the method used in determining the cost of capital for regulatory purposes.

TransAlta Energy's investments in Hidroneuquén S.A., Capital Energy Limited and EnergyDirect Corporation Limited are self-sustaining and are translated using the current rate method. Gains and losses on translation of these investments and associated long-term debt are deferred in a separate component of common shareholders' equity entitled "cumulative translation adjustment".

k) Post retirement benefits

Post retirement costs and obligations for the basic pension, the supplementary pension plan and post retirement benefits other than pensions are actuarially determined using the projected benefit method prorated on service. The estimated market value of the basic pension plan fund assets is actuarially determined based on a five-year moving average.

Experience gains and losses, and amounts arising as a result of changes in accounting methods, assumptions, plan amendments and investment and salary experience which differs from management's best estimates are amortized over the expected average remaining service life of the employee group.

l) Financial instruments

The corporation utilizes various financial instruments to reduce exposure to interest rate and currency exchange rate fluctuations. These instruments are designated as, and are considered effective as hedges.

Financial instruments are accounted for on an accrual basis. Settlements on interest rate swaps are recognized as adjustments to interest charges over the terms of the agreements. Foreign denominated transactions that are hedged by forward foreign exchange contracts are accounted for at the contract rate. Foreign currency denominated transactions that are hedged by foreign currency option combination contracts are recorded at the contract rate, if the options are exercised. The notional foreign currency principal of the cross currency interest rate swaps is translated at the year-end exchange rate and the translation gain or loss is included in the cumulative translation adjustment. The interest component of cross currency interest rate swaps is accounted for using the same method as noted above for interest rate swaps.

2. Property

		December 31			
		1995		1994	
	Depreciation Rates	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
TransAlta Utilities					
Hydro production	2.66%	$ 282.2	$ 128.2	$ 274.3	$ 121.3
Thermal production including coal mines	3.24% - 4.07%	2,277.6	833.1	2,250.9	772.1
Environmental control	3.58%	417.8	175.9	406.6	161.7
Transmission lines, substations and distribution systems	4.10% - 5.68%	2,417.7	1,160.0	2,351.9	1,046.2
Other	Various	316.5	89.9	310.5	81.7
Property under construction	None	40.6	–	39.5	–
		5,752.4	2,387.1	5,633.7	2,183.0
TransAlta Energy					
Independent power plants (generation)	unit of production				
Mississauga		106.1	13.0	104.2	8.6
Ottawa		71.1	10.4	70.8	6.8
Plant under construction (generation)	None	59.2	–	7.0	–
Other	10.00% - 20.00%	2.4	0.5	1.6	0.3
		238.8	23.9	183.6	15.7
Jointly Controlled Corporations					
Hidroneuquén S.A. (hydro production)	Straight-line (30 years)	370.7	21.4	378.3	8.7
Capital Energy Limited (distribution systems)	Straight-line (25 years)	119.8	18.1	–	–
EnergyDirect Corporation Limited (distribution systems)	Straight-line (25 years)	125.6	25.2	–	–
		616.1	64.7	378.3	8.7
		$ 6,607.3	$ 2,475.7	$ 6,195.6	$ 2,207.4

TransAlta Utilities capitalized allowance for funds used during construction at a rate of 10.5% (10.4% in 1994) on property under construction.

TransAlta Energy capitalized interest during construction of $1.5 million ($6.0 million in 1994) to plant under construction.

3. Investments in jointly controlled corporations

Hidroneuquén S.A.

TransAlta Energy owns 27 per cent of the common shares of Hidroneuquén S.A. which owns 59 per cent of the common shares of Hidroelectrica Piedra del Aguila S.A. (PdA). PdA owns a 30-year concession, ending in 2023, which provides it with all the rights and responsibilities associated with ownership and operation of a 1,400-megawatt hydroelectric facility in Argentina. Revenues and operating expenses of PdA are denominated in Argentine pesos which, in accordance with the convertibility law of Argentina, are convertible on a one-for-one basis with the US dollar. Earnings from this investment are denominated in US dollars.

TransAlta Energy considers US $82.0 million long-term debt as a hedge of this investment.

Capital Energy Limited and EnergyDirect Corporation Limited

In January 1995, TransAlta Energy purchased 49 per cent of the common shares of Capital Energy Limited for New Zealand $88.0 million (Canadian $79.2 million).

In December 1994, TransAlta Energy purchased 20 per cent of the common shares of EnergyDirect Corporation Limited for New Zealand $50.6 million (Canadian $43.2 million). In October 1995, an additional 21 per cent was purchased for New Zealand $70.0 million (Canadian $59.3 million) resulting in TransAlta Energy obtaining joint control of EnergyDirect Corporation Limited.

TransAlta Energy considers New Zealand $50.0 million long-term debt, New Zealand $50.0 million cross currency swaps (as described in note 16), and a New Zealand $20.0 million forward exchange contract as a partial hedge of these investments.

Details of the acquisitions of Capital Energy Limited in 1995 and EnergyDirect Corporation Limited in 1994 and 1995 are as follows:

	Capital Energy Limited	EnergyDirect Corporation Limited
Fair value of assets acquired	$ 110.4	$ 104.6
Consideration		
Cash paid	79.2	102.5
Debt assumed	28.4	–
Acquisition costs	2.8	2.1
	$ 110.4	$ 104.6

Consideration in excess of net book value acquired has been allocated to property.

Summarized information on the results of operations, financial position and cash flows relating to the corporation's pro-rata interest in jointly controlled corporations is as follows:

	Year Ended December 31	
Results of operations	1995	1994
Revenues	$ 119.4	$ 46.0
Operating expenses	(73.4)	(13.2)
Depreciation	(17.6)	(8.3)
Taxes on income	(2.4)	(4.5)
Operating income	26.0	20.0
Investment and other income	4.8	–
Interest charges	(21.2)	(9.8)
Minority interest	(0.4)	(4.0)
Proportionate share of net earnings of jointly controlled corporations	$ 9.2	$ 6.2

	December 31	
Financial position	1995	1994
Current assets	$ 43.5	$ 17.8
Property, net of accumulated depreciation	551.4	369.6
Current liabilities	(17.6)	(9.3)
Long-term debt	(158.3)	(184.2)
Deferred income taxes	(6.6)	(4.6)
Minority interest	(73.3)	(75.0)
Proportionate share of net assets of jointly controlled corporations	$ 339.1	$ 114.3

Cash flows		Year Ended December 31 1995		1994
Cash from operations	$	14.5	$	12.4
Cash applied to investments		(96.8)		(39.9)
Cash deficiency before financing	$	(82.3)	$	(27.5)
Cash from financing	$	84.7	$	29.4
Decrease in cash and short-term investments		(2.4)		(1.9)
	$	82.3	$	27.5

4. Investments

		December 31 1995		1994
EnergyDirect Corporation Limited (Note 3)	$	–	$	45.9
AEC Power Ltd.		15.1		15.2
Other		3.4		1.4
	$	18.5	$	62.5

AEC Power Ltd.

The investment consists of 50 per cent of the voting common shares, which represents one-third of the outstanding shares.

Other

In 1995, TransAlta Energy's gain on the sale of Keyword Office Technologies Ltd. was $2.7 million. In 1994, TransAlta Energy sold its investment in marketable securities of Sherritt Inc. for proceeds of $38.3 million, realizing a gain of $5.5 million.

5. Deferred costs

		December 31 1995		1994
TransAlta Utilities				
Financing costs	$	11.6	$	18.8
Other		4.7		6.0
		16.3		24.8
TransAlta Energy				
Development costs		10.6		17.2
Financing costs		5.1		4.9
		15.7		22.1
	$	32.0	$	46.9

6. Common shares

a) Authorized

Unlimited number of voting common shares without nominal or par value.

b) Issued and outstanding

At December 31, 1995, 158.9 million common shares were issued and outstanding (158.8 million shares in 1994). During 1995, 0.1 million shares were issued for cash of $1.1 million under the share option plan (0.1 million shares were issued for cash of $1.1 million under the dividend reinvestment and share purchase plan and the share option plan in 1994).

c) Common shares reserved for future issue

Under the amended terms of a share option plan, the corporation is authorized to grant certain employees options to purchase up to an aggregate of 6,000,000 common shares at prices based on the market price of the shares as determined on the date of the grant. Options may not be exercised until one year after grant and thereafter at an amount not exceeding 20 per cent of the grant per year on a cumulative basis until the sixth year, after which the entire grant may be exercised at any time prior to expiry.

	Number of Share Options	Exercise Price From	Exercise Price To
Outstanding at January 1, 1994	1,889,200	$ 11.765	$ 15.000
Granted	152,200	$ 13.875	$ 14.000
Exercised	(89,000)	$ 11.765	$ 14.265
Cancelled/expired	(35,400)	$ 11.765	$ 14.265
Outstanding at December 31, 1994	1,917,000	$ 11.765	$ 15.000
Granted	725,000	$ 14.000	$ 14.625
Exercised	(88,800)	$ 11.765	$ 14.265
Cancelled/expired	(101,200)	$ 11.765	$ 15.000
Outstanding at December 31, 1995	2,452,000	$ 11.765	$ 15.000

Under the amended terms of an employee share purchase plan, the corporation is authorized to issue up to an aggregate of 200,000 common shares at prices based on the market price of the shares as determined on the date of issue. As of December 31, 1995, no shares had been issued under the plan. To date, all common shares that have been transferred to participants under the plan have been acquired pursuant to secondary market purchases.

7. Preferred shares of TransAlta Utilities Corporation

a) Authorized

The authorized preferred share capital of TransAlta Utilities consists of an unlimited number of First and Second Preferred Shares, all without nominal or par value.

b) Issued and outstanding – first preferred shares

The first preferred shares, which are issuable in series, are cumulative and redeemable at designated dates at the option of TransAlta Utilities at their subscription price together with a premium not in excess of the annual dividend. Certain series are retractable at the option of the holder on designated dates at their subscription price plus any accrued and unpaid dividends. Certain series have annual purchase funds which are non-cumulative but require TransAlta Utilities to make all reasonable efforts to purchase for cancellation, in the open market, preferred shares at a price not exceeding their subscription price plus any accrued and unpaid dividends and costs of purchase. Only first preferred shares are issued and outstanding.

	4% to 5.40%	7% to 8.40%	December 31 1995	December 31 1994
Outstanding – first preferred shares	$ 2.8	$ 369.1	$ 371.9	$ 462.8
Number of shares			12,467,513	15,984,916
Number of votes			3,607,060	4,508,342
c) Changes during the year				
Cancelled through				
Purchase fund	$ –	$ (4.1)	$ (4.1)	$ (4.3)
Retraction	–	(86.8)	(86.8)	(81.9)
	$ –	$ (90.9)	$ (90.9)	$ (86.2)
Number of shares			(3,517,403)	(3,325,130)
Number of votes			(901,282)	(854,749)
d) Retraction privileges				
In 1995	$ –	$ –	$ –	$ 100.0
In 1996	–	99.0	99.0	99.0
Thereafter	–	145.3	145.3	145.3
No retraction	2.8	124.8	127.6	118.5
	$ 2.8	$ 369.1	$ 371.9	$ 462.8

An annual purchase fund may be required for up to $10.4 million stated capital in each year from 1996 to 1999 and $6.0 million thereafter.

8. Long-term debt

TransAlta Utilities

	$7\frac{1}{4}\%$ to $9\frac{3}{8}\%$	10% to $11\frac{1}{2}\%$	December 31 1995	1994
First mortgage bonds	$ 20.5	$ –	$ 20.5	$ 25.3
Debentures	706.8	630.0	1,336.8	1,178.6
Notes payable	40.0	–	40.0	40.0
Capital leases	40.2	–	40.2	44.6
Other	5.5	–	5.5	7.4
	813.0	630.0	1,443.0	1,295.9
Less: current portion	91.8	–	91.8	10.0
	$ 721.2	$ 630.0	$ 1,351.2	$ 1,285.9

The principal amounts and sinking fund requirements, excluding current portion, are due in the following years:

1996	$ –	$ –	$ –	$ 77.7
1997	52.8	130.0	182.8	186.6
1998	12.3	200.0	212.3	221.3
1999	9.9	100.0	109.9	117.7
2000	13.3	200.0	213.3	216.4
Thereafter	632.9	–	632.9	466.2
	$ 721.2	$ 630.0	$ 1,351.2	$ 1,285.9

First mortgage bonds

First mortgage bonds total US $15.0 million (US $17.5 million in 1994) and are payable at US $2.5 million per year over the next six years. They are secured by a first charge on certain of the TransAlta Utilities land, buildings, plant and equipment and by a first floating charge on all other utility assets situated in the Province of Alberta. TransAlta Utilities has closed the Trust Deed and will not issue additional first mortgage bonds.

Debentures

The debentures are secured by a floating charge on the property and assets of TransAlta Utilities subject to the first specific charge and the first floating charge securing the first mortgage bonds. During the year, TransAlta Utilities issued for cash $83.3 million 8.60% Series A Secured Debentures and $75.0 million 9.00% Series V Secured Debentures. In 1994, TransAlta Utilities issued for cash $80.0 million Series A Secured Debentures at rates ranging from 7.50% to 8.70%.

The following secured debenture issues, including sinking fund requirements, were redeemed for cash:

		December 31 1995	1994
$10\frac{3}{4}\%$	Series F	$ –	$ 29.9
$17\frac{5}{8}\%$	Series I	–	30.0
13%	Series J	–	40.6
$9\frac{5}{8}\%$	Series L	–	100.0
$9\frac{3}{4}\%$ to $11\frac{1}{4}\%$	Series A	0.1	10.9
		$ 0.1	$ 211.4

Notes payable

The notes payable are unsecured, have no authorized limit, bear interest determined at June 30 and December 31 of each year at the greater of the five-year bank term deposit rate or the prevailing bank prime interest rate and mature December 31 in each year. These amounts are payable to rural electrification co-operative associations through their agent, Farm Electric Services Ltd., and represent a portion of funds contributed by members of these associations.

Capital leases

TransAlta Utilities leases, with options to purchase, draglines with an initial capital cost of $73.0 million ($73.0 million in 1994) which is included in thermal production property. The related liability is included in long-term debt to reflect the effective acquisition and financing of the equipment. Accumulated amortization amounted to $35.2 million ($32.2 million in 1994). The future minimum payments under the capitalized leases are $1.9 million in each of 1996 to 2000, and $11.3 million thereafter. The imputed interest included in these future minimum payments is $7.8 million ($17.6 million in 1994). TransAlta Utilities has made a commitment to exercise the purchase option on one of the capital leases currently reporting a balance of $27.3 million at December 31, 1995. This commitment is reflected in the current portion of long-term debt. Balances and imputed interest rates are as follows:

	December 31 1995	1994
9.42% capital lease maturing in 2004	$ 12.9	$ 13.5
8.26% capital lease with purchase option due in 1996	27.3	31.1
	$ 40.2	$ 44.6

TransAlta Energy

	December 31 1995	1994
Non-recourse		
Notes payable – independent power plants (9.82% and 10.72%, due 2006 and 2009 respectively)	$ 114.9	$ 116.5
Less: current portion	5.0	4.6
	109.9	111.9
Recourse		
Bank credit facilities		
– Canadian funds	76.6	40.4
– US funds (US $120 million, US $86 million in 1994)	163.8	120.9
– New Zealand funds (NZ $50 million)	44.6	–
Notes payable – independent power plants	7.8	10.8
	292.8	172.1
	$ 402.7	$ 284.0

Non-recourse

The notes payable are non-recourse and are repayable in equal monthly installments of principal and interest. Security is limited to a first fixed and floating charge and specific mortgage on the Mississauga and Ottawa power plants, and assignment of the related contracts and permits. Principal repayments due are $5.0 million in 1996, $5.6 million in 1997, $6.2 million in 1998, $6.8 million in 1999, $7.5 million in 2000 and $91.6 million thereafter.

Recourse

Bank credit facilities

TransAlta Energy's bank credit facilities are guaranteed by the corporation and are as follows:

i) TransAlta Energy has a US $250.0 million revolving credit facility that permits borrowing in US and Canadian dollars. At December 31, 1995, US $69.0 million remained available. The revolving credit facility bears interest at variable rates and is due August 10, 1996, being the date at which the revolving facility is renewable for a further year at the option of TransAlta Energy and the lenders. If the facility is not renewed or repaid by August 1996, amounts outstanding convert into a two-year term loan and are repayable in August 1998.

ii) In November 1995, TransAlta Energy established a US $100.0 million revolving credit facility that permits borrowing in New Zealand or Australian dollars. The facility bears interest at variable rates and is renewable in November 1996. At December 31, 1995, US $67.3 million remained available. If the facility is not renewed or repaid by November 1996, amounts outstanding convert into a two-year term loan and are repayable in November 1998.

iii) TransAlta Energy has a US $25.0 million demand bank loan facility that permits borrowings in US or Canadian dollars and bears interest at variable rates. At December 31, 1995, US $14.8 million remained available. Borrowings under this facility have been classified as long-term debt in these financial statements as the lender does not intend to seek repayment during 1996.

Notes payable – independent power plants

Notes payable of $7.8 million ($10.8 million in 1994) represent debt proceeds received for the independent power plants for which letters of credit were issued as security. The letters of credit will be released on or before January 1, 1999 providing the plants meet certain financial performance and other conditions. As each condition is satisfied, the related letters of credit will be released and the amounts will be included with non-recourse debt.

Jointly controlled corporations

The debt of jointly controlled corporations is non-recourse to the corporation as it is secured solely by the assets of the jointly controlled corporations. Details of the corporation's proportionate share of the debt of jointly controlled corporations are as follows:

		December 31			
		1995		1994	
	Maturity Date	Outstanding	Average Interest Rate	Outstanding	Average Interest Rate
Hidroneuquén S.A.					
Term loan	Sept. 2000	$ 72.3	8.0%	$ 89.2	8.0%
Bank loan	May 1997	51.8	12.0%	68.8	9.2%
Shareholder loan	May 1997	4.0	14.3%	–	–
Other	Jan. 1996	1.8	8.8%	26.2	11.4%
		129.9		184.2	
Capital Energy Limited					
Term loan	March 1998	28.4	10.3%	–	–
		158.3		184.2	
Less: current portion		17.4		19.5	
		$ 140.9		$ 164.7	

The term loan to Hidroneuquén S.A. is repayable in equal semi-annual installments in March and September of each year. All other loans of jointly controlled corporations are repayable in full on the stated maturity dates.

9. Alberta Electric Energy Marketing Act net charge

Pursuant to the Alberta Electric Energy Marketing Act ("EEMA"), the Electric Energy Marketing Agency purchases electric energy generated and transmitted by TransAlta Utilities, Edmonton Power and Alberta Power Limited. The Electric Energy Marketing Agency immediately resells the electric energy to the utility from which it was purchased at the average price of all energy so purchased. The prices fixed by the EUB for electric energy supplied by TransAlta Utilities are currently below the average repurchase price, which in 1995 gave rise to a net payment by TransAlta Utilities through EEMA. Effective December 31, 1995, EEMA was repealed and was replaced by the Electric Utilities Act.

10. Rates for service

In 1995, regulated electric revenues were collected under rates approved in 1993 and for EEMA purposes under rates approved in 1994 by the Alberta Public Utilities Board. During 1993, an interim rate rider of $12.0 million was collected from customers which was refunded from January 1, 1994 to October 31, 1994, as directed by the Alberta Public Utilities Board.

As a consequence of an application made by the Industrial Power Consumers Association of Alberta, the EUB ordered on December 14, 1995, a review of TransAlta Utilities' rates for 1995. TransAlta Utilities has filed an Application for Review and Variance with the EUB and a Notice of Motion with the Alberta Court of Appeal requesting this decision be set aside. The Application for Review and Variance remains before the EUB and the Notice of Motion has been adjourned pending action by the EUB.

11. Non-regulated operations selected financial information

Non-regulated operations include TransAlta Energy and its subsidiaries, the proportionate share of the accounts of jointly controlled corporations and the investment in AEC Power Ltd.

	Year Ended December 31 1995	1994
Earnings		
Energy revenues	$ 207.1	$ 130.1
Operating deductions		
Operating expenses	49.1	23.8
Fuel	96.5	49.6
Depreciation	25.7	16.2
Taxes on income	3.6	4.9
	174.9	94.5
Investment and other income		
Equity income – AEC Power Ltd.	1.7	1.6
– EnergyDirect Corporation Limited	2.2	0.2
Interest and other income	3.2	2.6
Gain on sale of investments	4.6	5.5
Project development fees	6.7	–
	18.4	9.9
Financing charges, net of interest capitalized during construction	43.9	24.8
Minority interest in subsidiary of a jointly controlled corporation	0.4	4.0
Net earnings	$ 6.3	$ 16.7

	December 31 1995	1994
Assets		
Property, net of accumulated depreciation	$ 766.3	$ 537.5
Investments	$ 18.5	$ 62.5
Cash and other, net of liabilities excluding long-term debt	$ 51.9	$ 86.3
Liabilities		
Long-term debt – non-recourse	$ 114.9	$ 116.5
– recourse	$ 292.8	$ 172.1
– jointly controlled corporations	$ 158.3	$ 184.2
Minority interest in subsidiary of a jointly controlled corporation	$ 73.3	$ 75.0
Equity	$ 197.4	$ 138.5

12. Net earnings and taxes on income

Net earnings in 1995 were $214.1 million ($225.9 million in 1994). Taxes on income vary from the amount that would be determined by applying the combined statutory Canadian federal and Alberta income tax rates to pre-tax earnings, as follows:

	Year Ended December 31 1995	1994
Statutory income tax rates	44.6%	44.3%
Adjustments –		
i) Provincial timing differences for which no deferred tax is provided	0.5	0.6
ii) Equity income	(0.4)	(0.2)
iii) Allowance for equity funds used during construction, net of applicable depreciation adjustment	2.1	1.8
iv) Coal mining allowances	(0.7)	(0.8)
v) Subsidiary losses available for future years	0.4	(0.7)
vi) Large corporations tax and capital taxes	1.0	1.0
vii) International income taxed at lower rates	(0.2)	(0.5)
viii) Recognition of tax benefit arising from a non-regulated investment	(0.5)	–
ix) Other	0.1	(0.3)
Effective income tax rate	46.9%	45.2%

At December 31, 1995, TransAlta Energy has available for future use approximately $72.3 million of Canadian tax losses ($61.4 million in 1994). These losses expire in the years 1996 to 2002. TransAlta Energy also has tax losses within its foreign entities of $5.1 million available to be applied against future earnings of these entities. An amount of $4.5 million is not subject to expiry while $0.6 million expires in 1999. The corporation has not recognized the benefit of these Canadian and foreign tax losses in the consolidated financial statements.

13. Post retirement benefits

a) Pensions

The corporation maintains a contributory defined benefit retirement pension plan covering substantially all employees of the corporation, its domestic subsidiaries and specifically named employees working internationally, and an unfunded supplemental retirement pension plan.

Net pension expense for the years ended December 31:

	1995	1994
Basic pension plan:		
Current service cost, net of contributions	$ 7.7	$ 12.5
Expected interest on accrued benefits	23.1	23.1
Expected interest on plan assets	(22.8)	(22.7)
Net amortization and deferral of experience gains and losses, changes in assumptions and plan amendments	(0.7)	(0.5)
Net pension expense	$ 7.3	$ 12.4
Supplemental retirement pension plan expense	$ 1.7	$ 1.7

At December 31, 1995, the estimated market value of pension fund assets for actuarial purposes was $343.8 million ($311.0 million in 1994) and the actuarial value of accrued pension obligations was $330.5 million ($311.0 million in 1994). For the supplemental retirement pension plan, the actuarial value of the unfunded obligation was $11.5 million at December 31, 1995 ($11.3 million in 1994).

The latest actuarial valuations of the basic pension plan and the supplemental retirement plan were completed as of December 31, 1994.

b) Post retirement benefits other than pensions

The corporation provides supplementary health and dental benefits covering retirees of the corporation and its domestic subsidiaries under the age of 65 and their eligible dependents.

The latest actuarial valuation of post retirement benefits other than pensions was completed as of December 31, 1994.

In determining all post retirement benefits expenses and the status of all the plans the following significant assumptions were consistently used for 1995 and 1994: rate used to discount future benefits 7.5 per cent; rate used to estimate interest cost 7.5 per cent; rate used to estimate return on investments 7.5 per cent; rate used to escalate salaries 5.5 per cent; estimated remaining service life of employees 17 years. The assumptions take into consideration the long-term nature of the plans.

Net expense for the year and the status of the plan as of December 31:

	1995	1994
Post retirement benefits other than pensions expense	$ 2.3	$ 2.2
Actuarial value of unfunded obligation of post retirement benefits other than pension service cost for benefits earned	$ 13.6	$ 12.7

14. Small power producers' contracts

The Alberta Small Power Research and Development Act ("the Act") requires TransAlta Utilities to enter into long-term power purchase contracts with eligible small power producers at legislated prices. TransAlta Utilities has entered into contracts for 108 megawatts of capacity. Payments under the contracts are included in rates charged to customers. In addition, under the Act, effective January 1, 1995, TransAlta Utilities is required to compensate the producers for their income tax paid to a maximum of 15 per cent of their power revenues.

During 1995, 88 megawatts (73 megawatts in 1994) of small power capacity delivered power to TransAlta Utilities.

At December 31, 1995, future undiscounted minimum payments under these contracts are as follows:

1996	$	26.0
1997		26.5
1998		26.9
1999		27.4
2000		27.9
Thereafter		382.8
	$	517.5

At December 31, 1995, an additional 20 megawatts of capacity are forecast to commence delivery in 1996. Future undiscounted minimum payments under these contracts are estimated to be approximately $235.6 million.

TransAlta Utilities must purchase the power under long-term contracts at a price not less than 5.41¢/kwh (5.20¢/kwh in 1994) which is in excess of the current average Alberta Integrated System marginal cost of producing energy of about 1.5¢/kwh (about 2.0¢/kwh in 1994).

The small power producer contract costs are passed on to the customers through rates approved by the EUB, with the expectation that such costs will be recoverable in future years.

The estimated future costs and obligations for small power producers' contracts are presented separately in the corporation's consolidated statements of financial position for information purposes and do not form part of the corporation's assets and liabilities.

15. Change in non-cash working capital balances

		1995		1994
Accounts receivable	$	(36.6)	$	(27.7)
Materials and supplies at average cost		(0.2)		(1.0)
Accounts payable and accrued liabilities		12.1		39.1
Dividends payable		(1.5)		(1.6)
Income taxes payable		1.7		(11.6)
	$	(24.5)	$	(2.8)

16. Financial instruments

Summary of contracts

A summary of the contracts used to reduce currency exchange rate and interest rate exposure is as follows:

	Repricing or Maturity Date	Weighted Average Interest Rate	Principal/Notional Principal ($ million)		Fair Value Asset (Liability) (Cdn. $ million)
		December 31, 1995			
Interest rate swaps (a)	1996	6.7%	US	50.0	(0.7)
Cross currency interest rate swaps (b)	2000	7.9%	NZ	25.0	1.1
	2005	7.6%	NZ	25.0	1.3
Forward exchange contracts (c)	1996		NZ	24.9	(0.2)
	1996		US	3.8	0.1
	1996		US	11.3(d)	0.1
Foreign currency option combination contracts (e)	1996		NZ	5.1	(0.1)
		December 31, 1994			
Interest rate swaps	1995	8.1%	US	50.0	–
Forward exchange contracts	1995		US/NZ	23.5	0.1
	1995		US	3.0	(0.1)

a) TransAlta Energy enters into interest rate swap contracts to reduce exposure to increases in variable interest rates. These contracts effectively fix the interest rate on US dollar debt for terms of two and three years.

b) TransAlta Energy has entered into cross currency interest rate swap contracts to reduce its exposure to the effect of changes in exchange rates on its self-sustaining foreign operations. TransAlta Energy has notionally swapped Canadian $45.7 million debt with an interest rate of 7.8 per cent for New Zealand $50 million debt with an interest rate of 7.9 per cent.

   The conversion of debt into New Zealand currency results in partial hedging of TransAlta Energy's New Zealand investments as described in note 3 and it ensures that a portion of the financing charges related to the investment occur in the same currency as the revenues that are generated.

c) TransAlta Energy has entered into forward exchange contracts to hedge a portion of TransAlta Energy's New Zealand investments. TransAlta Energy has also entered into forward exchange contracts to hedge future US dollar construction payments for the independent power plants under construction.

d) TransAlta Energy has entered into forward exchange contracts to buy US dollars and sell New Zealand and Australian dollars to hedge future US dollar construction payments on independent power plants under construction in New Zealand and Australia.

e) TransAlta Energy has used foreign currency option combination contracts to cap the cost of buying Canadian dollars for construction payments for independent power plants under construction in New Zealand.

Credit risk

The credit risk associated with these financial instruments arises from the possibility that a counterparty to an instrument fails to perform according to the terms of the contract. At December 31, 1995, credit risk amounted to $2.6 million ($0.1 million at December 31, 1994) for foreign currency and interest rate management instruments. The largest credit exposure to a single counterparty was $1.7 million at December 31, 1995.

Fair value of other financial instruments

	December 31			
	1995		1994	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 2,009.0	$ 2,017.1	$ 1,768.7	$ 1,745.6
Preferred shares of a subsidiary	371.9	380.6	462.8	471.9

The fair value of cash and short-term investments, accounts receivable, bank loan and short-term notes, accounts payable and dividends payable approximates the carrying amount of these instruments due to the short period to maturity. The fair value of long-term debt and preferred shares of a subsidiary has been valued using quoted market prices for the same or similar issues. The fair value of interest rate swaps, cross currency interest rate swaps, forward exchange and foreign currency option combination contracts is based on closing market rates.

The fair value of fixed rate debt, preferred shares and interest rate swaps fluctuates primarily with changes in interest rates. The fair value of the cross currency interest rate swaps, forward exchange contracts and foreign currency option combination contracts fluctuates primarily with changes in currency exchange rates or interest rates. The fair value of variable rate debt does not fluctuate with changes in interest rates; however, interest payments related to the debt fluctuate with changes in interest rates.

17. Segmented reporting

The corporation's activities are classified as one industrial segment for financial reporting purposes. The corporation has identified three geographic segments – Canada, South America and New Zealand and Australia.

	Year Ended December 31 1995	1994
Revenues		
Canada	$ 1,259.8	$ 1,261.0
South America	48.7	46.0
New Zealand and Australia	70.7	–
	$ 1,379.2	$ 1,307.0
Net earnings (loss)		
Canada	$ 183.9	$ 184.8
South America	(1.2)	5.4
New Zealand and Australia	11.9	(0.4)
Less: non-allocable interest charges of TransAlta Energy	(12.9)	(2.9)
	$ 181.7	$ 186.9

	December 31 1995	1994
Assets		
Canada	$ 3,921.8	$ 4,010.6
South America	373.3	387.2
New Zealand and Australia	257.3	45.9
	$ 4,552.4	$ 4,443.7

There were no inter-segment sales during the years ended December 31, 1995 and 1994.

18. Commitments and contingencies

TransAlta Energy has entered into long-term gas transportation agreements which extend until 2003. These agreements require annual payments which, in 1996, amount to approximately $19.3 million. TransAlta Energy has entered into construction commitments of $113.6 million to be incurred in 1996.

19. Comparative figures

Certain of the comparative figures have been reclassified to conform with the current year presentation.

ten-year summary of TransAlta Corporation

(millions of dollars except where noted)

Financial record		1995	1994
Statement of earnings			
Electric revenue – regulated		1,426.8	1,391.8
Alberta Electric Energy Marketing Act net (charge) recovery		(231.3)	(202.9)
Alberta Small Power Research and Development Act charge		(23.4)	(12.0)
Energy revenues – non-regulated		207.1	130.1
Operating deductions		(1,001.3)	(925.3)
Allowance for funds used during construction		4.7	6.6
Allowance for funds used on plant held for future use		–	–
Investment and other income		18.4	9.9
Interest charges, net of interest capitalized		(186.5)	(168.3)
Preferred share dividend requirements of subsidiaries		(32.4)	(39.0)
Minority interest in subsidiary of a jointly controlled corporation		(0.4)	(4.0)
Earnings from continuing operations		181.7	186.9
Discontinued operations		–	–
Net earnings applicable to common shares		181.7	186.9
Common shareholders' investment			
Average common shareholders' investment (weighted)		1,523.8	1,494.2
Return from continuing operations on weighted average (%)		11.9	12.5
Common share information (dollars per share)			
Book value (year end)		9.71	9.54
Earnings from continuing operations		1.14	1.18
Net earnings		1.14	1.18
Dividends declared		0.98	0.98
Coverages (times earned before income tax)			
Interest		3.2	3.5
Interest and preferred dividends		2.4	2.4
Assets and property			
Total assets		4,552.4	4,443.7
Property		4,131.6	3,988.2
Electric utility property in service		4,031.8	3,941.7
Investments and expenditures on facilities		368.7	234.8
Capitalization			
Common shareholders' equity		1,542.7	1,515.0
TransAlta Utilities	– preferred shares	371.9	462.8
	– long-term debt	1,351.2	1,285.9
TransAlta Energy	– long-term debt	402.7	284.0
	– preferred shares	–	–
	– minority interest in subsidiary of a jointly controlled corporation	73.3	75.0
	– long-term debt of jointly controlled corporations	140.9	164.7
		3,882.7	3,787.4
Statistical record			
Electric energy sales (millions of kWh)			
Regulated	– residential and commercial	3,810	3,727
	– industrial	15,618	14,753
	– cities and towns under wholesale contracts	7,773	7,758
	– farms	1,179	1,212
Non-regulated	– independent power	3,561	2,860
		31,941	30,310
Generating capability (nominal net MW)			
Regulated	– hydro	800	800
	– thermal	3,676	3,676
Non-regulated	– independent power	640	640
		5,116	5,116
Sources of primary energy (millions of kWh)			
Regulated	– hydro	1,786	1,574
	– thermal (coal)	28,026	27,737
	– net purchases and exchanges	680	401
Non-regulated	– independent power	3,561	2,860
		34,053	32,572

*Net of $0.75 per share or 7.5 per cent reduction resulting from capital reorganization February 1, 1988.

1993	1992	1991	1990	1989	1988	1987	1986
1,312.8	1,275.1	1,160.6	1,063.5	954.9	909.6	917.0	909.0
(173.3)	(175.6)	(159.5)	(117.5)	(43.3)	17.4	8.5	(15.9)
(6.4)	(3.8)	(0.6)	–	–	–	–	–
75.2	5.9	–	–	–	–	–	–
(840.0)	(749.9)	(667.6)	(620.3)	(588.3)	(585.3)	(582.3)	(557.6)
9.7	13.6	15.8	27.3	35.1	38.2	38.7	61.0
–	16.5	32.2	18.6	5.6	–	0.5	0.4
9.8	7.1	2.9	2.1	2.0	1.9	5.4	12.9
(153.9)	(147.4)	(168.4)	(176.4)	(163.5)	(146.2)	(130.3)	(147.7)
(50.1)	(59.0)	(57.1)	(52.0)	(52.5)	(61.7)	(80.9)	(84.0)
–	–	–	–	–	–	–	–
183.8	182.5	158.3	145.3	150.0	173.9	176.6	178.1
–	–	–	(110.0)	(13.1)	(57.6)	2.4	(124.6)
183.8	182.5	158.3	35.3	136.9	116.3	179.0	53.5
1,463.2	1,393.4	1,214.7	1,188.9	1,227.1	1,236.6	1,301.6	1,278.9
12.6	13.1	13.0	12.2	12.2	14.1	13.6	13.9
9.31	9.12	8.71	8.42	9.10	9.05*	9.87	9.46
1.16	1.18	1.12	1.07	1.11	1.29	1.31	1.35
1.16	1.18	1.12	0.26	1.01	0.86	1.33	0.41
0.98	0.98	0.98	0.98	0.965	0.93	0.92	0.86
3.7	3.8	3.1	2.9	3.1	3.9	4.6	4.1
2.4	2.3	2.0	1.9	2.0	2.2	2.2	2.1
4,401.8	4,117.2	3,966.0	3,844.2	3,892.3	3,721.6	3,685.5	3,701.9
4,051.7	3,793.4	3,651.2	3,538.7	3,451.7	3,335.6	3,286.1	3,273.5
3,773.4	3,520.5	3,127.9	3,117.9	3,058.3	3,024.8	3,005.3	2,993.4
508.9	373.3	322.3	280.9	293.4	229.7	169.9	233.8
1,477.6	1,446.0	1,254.3	1,155.8	1,230.6	1,223.7	1,334.3	1,265.7
549.0	754.4	763.0	668.2	673.7	678.9	758.7	689.7
1,348.0	1,089.1	1,236.4	1,396.2	1,220.1	1,149.4	946.2	992.3
232.8	142.8	51.0	73.5	99.3	68.1	–	–
–	–	–	–	–	–	124.2	160.0
66.8	–	–	–	–	–	–	–
82.4	–	–	–	–	–	–	–
3,756.6	3,432.3	3,304.7	3,293.7	3,223.7	3,120.1	3,163.4	3,107.7
3,620	3,530	3,474	3,306	3,205	3,129	2,928	2,854
13,539	13,101	12,168	10,911	10,359	9,922	8,789	8,215
7,541	7,455	7,426	7,376	7,216	7,002	6,668	6,522
1,119	1,161	1,182	1,193	1,162	1,117	1,006	1,006
1,256	100	–	–	–	–	–	–
27,075	25,347	24,250	22,786	21,942	21,170	19,391	18,597
800	800	800	800	800	800	800	800
3,676	3,676	3,676	3,676	3,493	3,493	3,493	3,493
640	266	88	88	88	88	88	88
5,116	4,742	4,564	4,564	4,381	4,381	4,381	4,381
1,670	1,502	2,022	2,051	1,589	1,423	1,444	1,791
27,369	26,904	26,102	25,584	25,510	26,342	24,839	23,813
(1,107)	(1,145)	(1,905)	(2,809)	(2,969)	(4,619)	(4,968)	(5,304)
1,256	100	–	–	–	–	–	–
29,188	27,361	26,219	24,826	24,130	23,146	21,315	20,300

TransAlta Corporation Directors

(1) *Member of Audit Committee*
(2) *Member of Environment and Risk Management Committee*
(3) *Member of Human Resources Committee*
(4) *Member of Nominating and Corporate Governance Committee*
(5) *Member of Pension Investment Committee*

LAWRENCE I. BELL
President & CEO, Shato Holdings Ltd.
Former CEO, British Columbia Hydro & Power
Director since 1992 • (2,5)

JACK C. DONALD
President & CEO, Parkland Industries Ltd.
Chairman & Director, Canadian Western Bank
Director since 1993 • (3)

JOHN T. FERGUSON, F.C.A.
President & CEO, Princeton Developments Ltd.
Director since 1981 • (5)

CHRIS HAMPSON, C.B.E.
Chairman, Yorkshire Electricity Group PLC
Former Executive Director, Imperial Chemical Industries PLC
Director since 1994 • (2)

CHARLES H. HANTHO, F.C.A.E.
Chairman, Dominion Textile Inc.
Chairman, Dofasco Inc.
Director since 1992 • (4)

RICHARD F. HASKAYNE, F.C.A.
Chairman, NOVA Corporation
Director since 1991 • (3,4)

LOUIS D. HYNDMAN, O.C., Q.C.
Senior Partner, Field & Field Perraton
Director since 1986 • (1,2)

DONNA SOBLE KAUFMAN
Partner, Stikeman, Elliott
Director since 1989 • (2,4)

JOHN S. LANE
Senior Vice-President, Investments, Sun Life Assurance Company of Canada
Director since 1993 • (4)

J. WALLACE MADILL
President, J. Wallace Madill & Associates
Former CEO, Alberta Wheat Pool
Director since 1978 • (1,3)

GERALD J. MAIER, F.C.A.E.
Chairman, TransCanada PipeLines Limited
Director since 1983 • (3)

KEN F. McCREADY
Corporate Consultant
Former President & CEO, TransAlta
Director since 1988

ROSS F. PHILLIPS, F.C.A.
Corporate Consultant
Former Chairman & CEO, Home Oil Company Limited
Director since 1975 • (1,5)

HARRY G. SCHAEFER, F.C.A.
Chairman of the Board, TransAlta
Former Chief Financial Officer, TransAlta
Joined TransAlta in 1963
Director since 1985 • (5)

RALPH A. THRALL, JR.
President, McIntyre Ranching Co. Ltd.
Director since 1981 • (1,2)

TransAlta Corporation Officers

WALTER SAPONJA
President & Chief Executive Officer

MICHAEL A. PAVEY
Senior Vice-President & Chief Financial Officer

TERENCE DALGLEISH, Q.C.
Senior Vice-President, Law

JIM LESLIE
Senior Vice-President, Sustainable Development

BRIAN P. CLEWES
Vice-President, Human Resources

DAWN L. FARRELL
Vice-President, Business Development

GARY C. MOORE
Vice-President, Information Services

LINDA K. THOMAS
Vice-President, Public Affairs

ROBERT C.P. WESTBURY
Vice-President, Government Affairs

WILLIAM A. VERES
Treasurer

DON W. BOONE
Corporate Secretary

KEN J. WETHERELL
Assistant Corporate Secretary

TransAlta Utilities Officers

WALTER SAPONJA
Chief Executive Officer
President & Chief Operating Officer

MICHAEL A. PAVEY
Chief Financial Officer

WOLFGANG JANKE
Vice-President, Customer Services

J. IAN BOOTLE
Vice-President, Finance

MURRAY A. NELSON
Vice-President, Retail Energy Marketing

JOHN A. TAPICS
Vice-President, Generation

CAROLYN DAHL REES
General Counsel

WILLIAM A. VERES
Treasurer

DON W. BOONE
Corporate Secretary

KEN J. WETHERELL
Assistant Corporate Secretary

TransAlta Energy Officers

WALTER SAPONJA
Chief Executive Officer

ALAN C. MOON
President & Chief Operating Officer

MICHAEL A. PAVEY
Chief Financial Officer

GARY R. HOLDEN
Vice-President, New Zealand and Australia

G. DUANE LYONS
Vice-President, Development

S. JIM SIMMONS
Vice-President, Engineering & Operations

TOBY J. AUSTIN
General Counsel

MARVIN J. WAIAND
Director of Finance & Treasurer

DON W. BOONE
Corporate Secretary

KEN J. WETHERELL
Assistant Corporate Secretary

Retirements and Appointments

On January 28, 1996, TransAlta Corporation announced that its board of directors had accepted the resignation of Ken McCready as President and Chief Executive Officer. Walter Saponja was appointed as interim President and Chief Executive Officer. Mr. Saponja has been President and Chief Operating Officer of TransAlta Utilities since 1994.

Dick McKinnon, Vice-President, Finance, TransAlta Utilities retired after 20 years of service. Ian Mallory, Vice-President, Latin America, TransAlta Energy left the corporation. In early 1996, Sue Lee, Vice-President, Human Resources, TransAlta Corporation left the corporation. TransAlta thanks these individuals for their commitment and leadership over their years of service.

In 1995, Terry Dalgleish was appointed Senior Vice-President, Law, TransAlta Corporation. Dawn Farrell was appointed Vice-President, Business Development, TransAlta Corporation. Murray Nelson was appointed Vice-President, Retail Energy Marketing, TransAlta Utilities. Toby Austin was appointed General Counsel, TransAlta Energy and Carolyn Dahl Rees was appointed General Counsel, TransAlta Utilities. In early 1996, Ian Bootle was appointed Vice-President, Finance, TransAlta Utilities, Linda Thomas was appointed as Vice-President, Public Affairs, TransAlta Corporation, and Brian Clewes was appointed Vice-President, Human Resources, TransAlta Corporation.

Linda Singleton, Vice-President, Public Affairs, TransAlta Corporation passed away in December following a lengthy battle with cancer. Linda is remembered as a strong leader who faced adversity with courage and determination.

Corporate Governance Practices

The Toronto Stock Exchange Committee Report on Corporate Governance in Canada, issued in December 1994, contains a series of proposed guidelines for effective corporate governance (the "TSE Report"). The guidelines address matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees and the effectiveness and education of board members. TransAlta participated in the Toronto Stock Exchange's review of corporate governance practices and continues to work to remain on the forefront of current practices in corporate governance.

In 1995, the Toronto Stock Exchange adopted, as a listing requirement, the disclosure by each listed corporation of its approach to corporate governance with reference to the guidelines in the TSE Report. TransAlta has reviewed the guidelines proposed by the Committee and found that its practices meet the spirit and intent of the guidelines. Thirteen of TransAlta's 15 directors are independent of management and meet regularly, chaired by an independent director, to review the performance of the Board and of the corporation. Through its standing Committees – Audit, Human Resources, Nominating and Corporate Governance, Environment and Risk Management, and Pension Investment – the Board regularly reviews the principal risks to the corporation and monitors the systems for managing these risks. With the exception of the Pension Investment Committee, all board committees are composed entirely of independent directors.

TransAlta's detailed disclosure is included as part of the corporation's 1996 Notice to Shareholders and management Proxy Circular ("Proxy Circular"). In addition, the corporation has developed TransAlta Board Guidelines on Significant Corporate Governance Issues, which are available to shareholders on request from the Corporate Secretary.

Environmental Policy Statement

TransAlta is committed to the environment and sustainable development. Protection of the environment is a vital element in our business. We strive to empower our employees to take initiatives to protect and enhance the environment, based on shared values and the need to satisfy the environmental concerns and expectations of customers, investors and the public. We are committed to:

- Reporting complete and accurate information to stakeholders on the environmental impact of our business, meeting or surpassing all environmental standards, and continuously improving our environmental performance.
- Advocating socially responsible environmental standards and the recognition of the economic value of environmental resources.
- Implementing conservation and efficiency initiatives for all resources and pursuing alternative energy opportunities, both within our own operations and in partnership with others.
- Seeking out research opportunities and developing alliances with stakeholders for environmental solutions.
- Consulting and working with those who may be affected by our business to respond to their concerns.
- Recognizing and respecting the relationship between the environment and health in all phases of our business, and using the best knowledge available to protect the health of employees and the public.
- Encouraging and developing educational programs and resources to provide balanced public information and to foster environmentally sensitive attitudes, knowledge and skills.
- Identifying and developing business ventures where value can be added to solutions to environmental problems and investment opportunities created for the corporation and its shareholders.

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AUDITORS
Ernst & Young, Chartered Accountants
Calgary, Alberta, Canada

Ticker Symbol:
TA for TransAlta Corporation
common shares

TAU for TransAlta Utilities
first preferred shares

Listed on the Alberta, Montreal and Toronto stock exchanges

TRANSFER AGENT AND REGISTRAR – TRANSALTA CORPORATION

Common Shares:
R-M Trust Company
Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto, Montreal

Dividend Reinvestment and Share Purchase Plan:
R-M Trust Company – Toronto

TRUSTEES AND REGISTRARS – TRANSALTA UTILITIES

First Mortgage Bonds:
Montreal Trust Company
Vancouver, Calgary, Toronto, Montreal

Secured Debentures:
The R-M Trust Company
Vancouver, Calgary, Toronto, Montreal

TRANSFER AGENT AND REGISTRAR – TRANSALTA UTILITIES

First Preferred Shares:
R-M Trust Company
Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto, Montreal

Common Share Information
The corporation's common shares were split 3 for 1 on May 8, 1980, and 2 for 1 on February 1, 1988.

The valuation day value of common shares owned on December 31, 1971, adjusted for stock splits, is $4.54 per share.

The adjusted cost base of common shares held on January 31, 1988, is reduced by $0.75 per share subsequent to the February 1, 1988 split.

Dividend payment dates are July 1, 1996, October 1, 1996, January 1, 1997 and April 1, 1997 for shareholders of record on June 3, 1996, September 3, 1996, December 2, 1996 and March 3, 1997 respectively.

TransAlta Corporation

TransAlta Corporation offers additional environmental information through its Environmental Performance Report and financial information through its Financial Statistical Summary and Interim Reports to Shareholders.

For copies or other shareholder information, please contact:
Ken J. Wetherell, Assistant Corporate Secretary,
TransAlta Corporation,110 - 12th Avenue S.W., Box 1900, Calgary, Alberta, Canada T2P 2M1
Telephone: 1-800-387-3598 toll free in Canada or (403) 267-3631 in Calgary and outside Canada. Fax: (403) 267-2559

Information is also available on the Internet at http://www.transalta.com

Shareholder inquiries regarding changes of address, stock transfer, registered share holdings, dividends, lost certificates and multiple copies of mailed material should be directed to:

The R-M Trust Company, Investor Services, 5th Floor, 393 University Avenue, Toronto, Ontario M5G 2M7

Telephone: 1-800-387-0825 toll free in North America, or (416) 813-4600 in Toronto or outside North America, fax (416) 813-4555.

R-M Trust also has offices in Calgary, Edmonton, Vancouver, Regina, Winnipeg and Montreal.

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